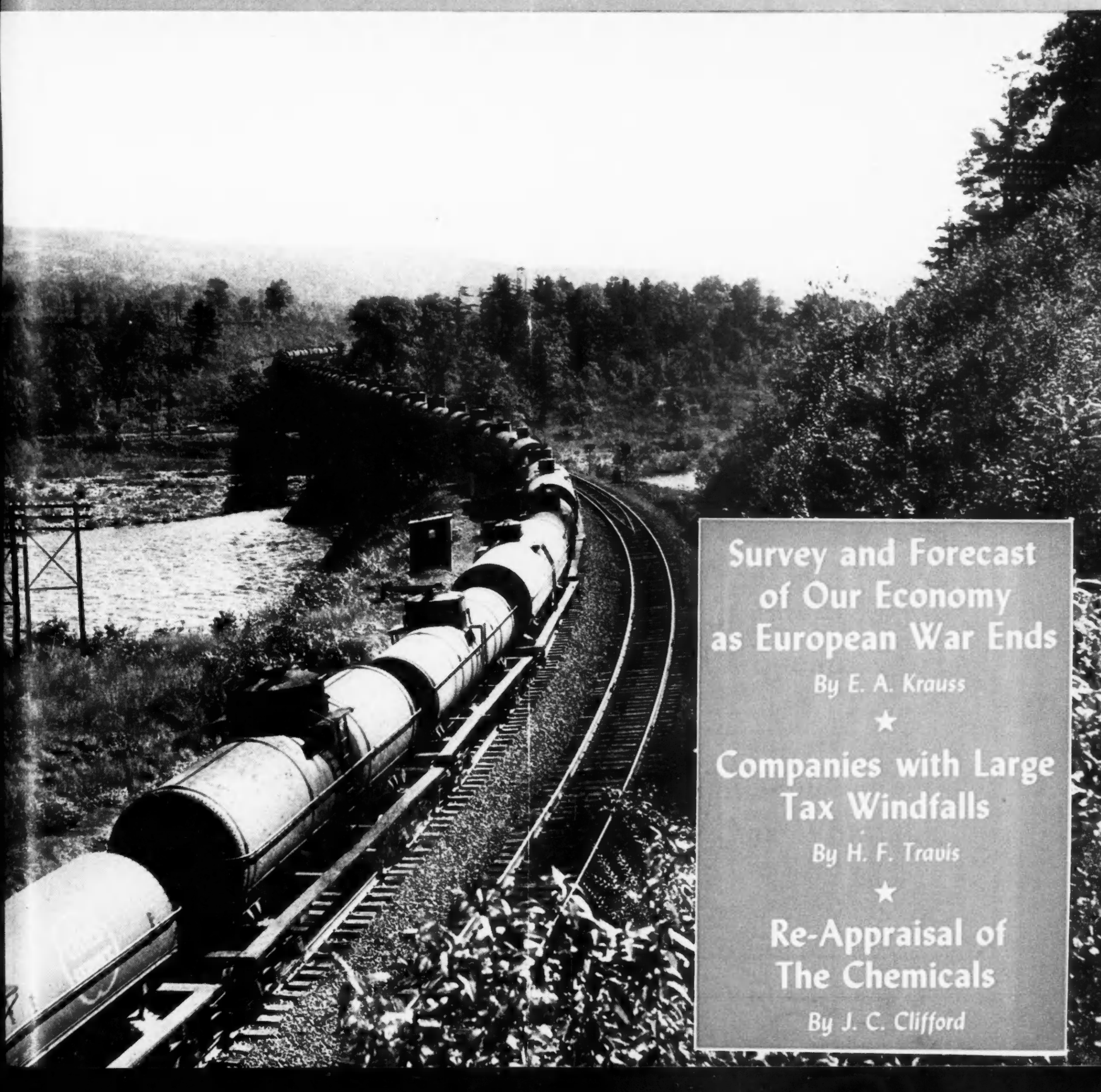
WISEST MARKET POLICY NOW

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

AY 26, 1945

50 CENTS



Survey and Forecast of Our Economy as European War Ends

By E. A. Krauss

★

Companies with Large Tax Windfalls

By H. F. Travis

★

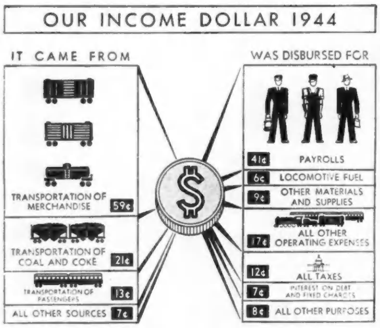
Re-Appraisal of The Chemicals

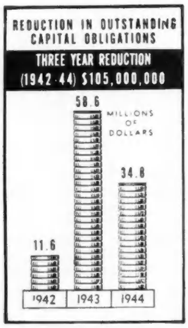
By J. C. Clifford

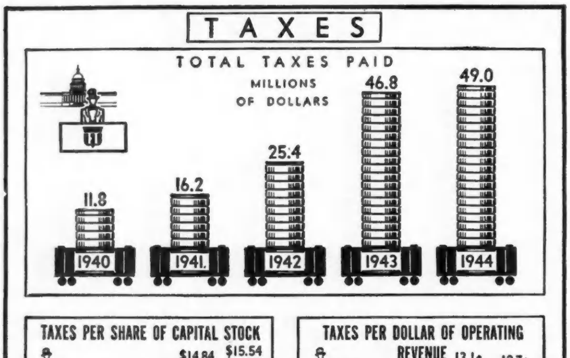
THE BALTIMORE AND OHIO RAILROAD COMPANY

Summary of the 118th Report • Year Ended December 31, 1944

EARNINGS:	Year 1944	Compared with 1943
From operations — transporting freight, passengers, mail, express, etc.	$387,193,036	I $29,050,884
From dividends and interest on securities owned, rents, etc.	7,741,295	D 896,674
Total	$394,934,331	I $28,154,210
EXPENSES:		
Payrolls, fuel, material, etc.	$287,068,754	I $36,484,401
Taxes	48,984,845	I 2,227,636
Equipment and Joint Facility Rents	9,823,057	I 890,685
	$345,876,656	I $39,602,722
Other charges — principally rent for leased roads and equipment, interest on debt, etc.	28,143,237	D 1,853,470
Total	$374.019,893	I $37,749,252
Net Earnings	$ 20,914,438	D $ 9,595,042
DISPOSITION OF NET EARNINGS:		
Additions and betterments to Company property	$ 4,906,110	D $ 146,370
Appropriated for sinking and other reserve funds — to retire debt	8,021,881	D 11,097,232
Other appropriations	45,188	I 1,309
Added to the Company's surplus	7,941,259	I 1,647,251
Total	$ 20,914,438	D $ 9,595,042







Freight and passenger traffic handled in 1944 exceeded all previous records, due largely to the heavy tonnage of war supplies, troop movements and other war travel. Totals were 147,314,981 tons and 14,303,937 passengers.

The tremendous task of moving this extremely heavy traffic volume was accomplished through the continued cooperation of the various agencies of the Government, shippers, and the public generally, in the conservation of equipment and manpower and in meeting the unusual war-time conditions.

Operating Revenues—$387,193,036, and Operating Expenses—$287,068,754—were highest in the Company's history.

The Company's tax bill at $48,984,845, was larger in 1944 than ever before.

During 1944 debt of the Company was reduced by $34,801,828. Total debt reduction during the last three years was more than $105,000,000.

The President and Directors acknowledge with grateful appreciation the loyalty and cooperation of stockholders and others interested in the Company's success; the Army, Navy and other agencies of the Government; our patrons, whose patriotic understanding of present day conditions has been most helpful; and, the officers and employees, without whose enthusiastic support we could not have accomplished the tremendous task of 1944.

More than 16,000 employees of the Company have been furloughed for military service and more than 150 of these have given their lives for their country.

R. B. White, *President*

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 76, No. 4 May 26, 1945

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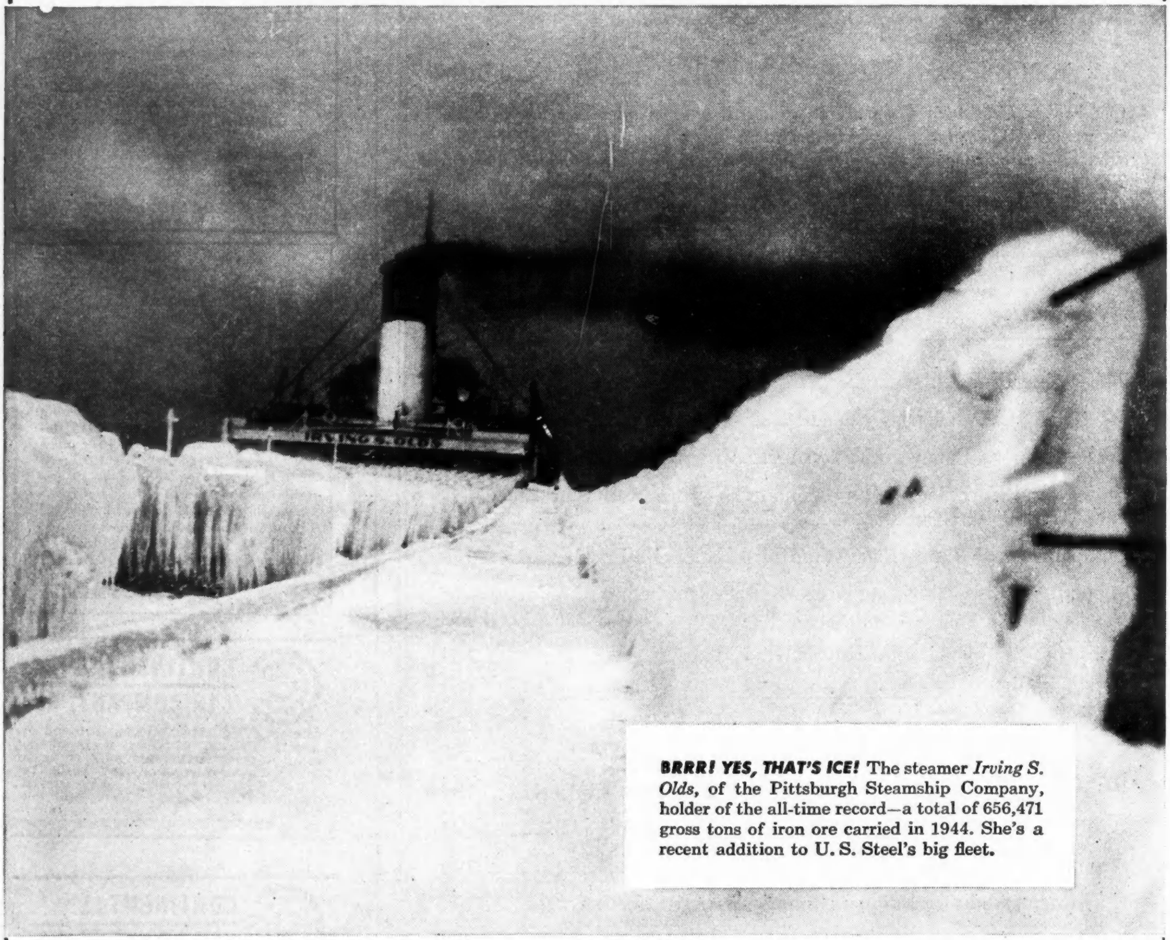
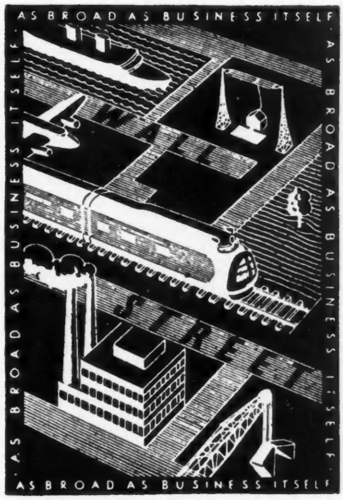


BRRR! YES, THAT'S ICE! The steamer *Irving S. Olds*, of the Pittsburgh Steamship Company, holder of the all-time record—a total of 656,471 gross tons of iron ore carried in 1944. She's a recent addition to U. S. Steel's big fleet.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* E. A. KRAUSS, *Managing Editor*



The Trend of Events

THE PRESIDENT'S TAX POLICY . . . As outlined in a special article in this issue, only minor tax revision is slated for this year but differences of opinion are developing with regard to tax legislation for next year. So long as the war with Japan continues, the Administration is opposed to any broad cut and this decision is likely to stand despite probable congressional attempts to introduce tax reduction features when the interim tax program comes up for action. The President has made clear that he means to pursue a conservative fiscal policy by taking steps to reduce Federal expenditures. A conservative policy of course cuts both ways, hence he is at odds with those who would initiate tax reductions at a time when Federal outlays continue huge.

With the Federal debt approaching $250 billion and quite likely to reach $300 billion by the time Japan is defeated, few thoughtful persons can strongly disagree with the President's policy. While the present tax structure may act as a deterrent to enterprise under normal conditions, it is not likely to exert such an influence during the months ahead, when huge war orders continue to assure a high level of business activity. For the moment, it would seem to be more important to safeguard the national credit than to reduce tax rates to stimulate enterprise. This is just as much fiscal sanity as curtailment of unnecessary expenditures. As we said before, sound fiscal policy works both ways.

This does not mean that high war-time taxes should continue beyond their absolute necessity. Without question, a good case could be made for a moderate lowering of Excess Profits Taxes even at this time, if only to provide an incentive for business to lower costs, since virtual confiscation of earnings above a given level is bound to encourage waste. Together with the desire to stimulate enterprise, it forms a strong argument that will be used to the full by proponents of early tax rate deductions.

Withal, the soundness of approach to the tax question will depend primarily on the economic conditions that will prevail next year. Should war output continue large and, simultaneously, civilian goods production expand vigorously, there may be little need for the stimulus of tax reduction. But if considerable unemployment develops in the wake of reconversion, the case for early tax reduction becomes well nigh unanswerable.

Reports have it that President Truman's stand on taxes failed to squelch the more enthusiastic boosters for a 1946 tax relief bill and we are not inclined to argue with those selfsame quarters who feel that the President will be reluctant to pick a congressional fight over the tax question, what with congressional elections coming up next year. They think that adroitly managed, a tax relief bill may not encounter much real opposition. We wouldn't know, but we feel that the future course of the

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : 1907 — *"Over Thirty-Eight Years of Service"* — 1945

Pacific war is likely to be a more important determinant of the timing of tax relief. If things go well, there may be a good chance that Congress will get going on a tax relief bill late this year or early next.

A PORTENT? . . . The financial community is wondering whether a recent hint in the report of the Federal Deposit Insurance Corporation that commercial banks are considering an increase in interest allowance on time deposits is a sign of impending stiffening of money market rates, suggestive that a change in the general interest level may be starting.

Not being in the confidence of the FDIC, we do not know exactly what prompted the hint but we are skeptical whether any particular money market significance can be attached to the incidence. Rather, we feel that the time for even a mild and incipient stiffening of money rates is not yet. With Government financing needs continuing abnormally large for an indefinite period, it is difficult to envisage even partial abandonment of Federal control of the capital market, or a turn-about in the Government's easy money policy however desirable that may seem purely from the investor standpoint. In the last analysis, money policy is not only a vital financial and fiscal matter but also a highly important political question, and as such not one likely to be tackled at this particular juncture.

RECONVERSION WAGE POLICIES . . . The program recently promulgated by the War Labor Board covering reconversion wage policies must be viewed as a streamlined procedure by which the Board will gradually relinquish its hold over wages and turn wage problems over to collective bargaining.

While the Board for a time will continue a firm check over downward or upward revisions of wages in line with the Stabilization Act, the method used in fixing reconversion wages will rely heavily on collective bargaining in the initial stage, with subsequent review by the WLB to assure compliance with stabilization policies. In following this course, the Board is making an important contribution to speedy changeover, for serious delays would probably result were the WLB to attempt to lay down detailed rules.

Action taken provides that wage rates in plants reconverted from war to civilian work shall remain the same for similar jobs; a continuity of wage scales is thus sought which will usually mean a sharp increase over the hourly rates paid before such plants entered war production. Evidently, this is designed to lessen the danger of industrial disputes and strikes incident to reconversion, and to maintain the purchasing power of wage earners. As a corollary, however, it would also require sufficient flexibility in repricing policies to permit manufacturers to operate at a profit with these higher wage costs, particularly since initial output of peace-time goods will be limited in quantity so that economies of capacity operations cannot be realized. As we all know, labor and the cost of labor is the big question mark in the reconversion picture, therefore it is well that OPA's program for getting reconversion goods back on the market leaves plenty of room for "horse trading." Despite such latitude, it is in the nature of such things that the chorus of complaints is loud and lusty.

LEND-LEASE ENIGMA . . . Our apparent decision to limit henceforth lend-lease grants to nations which are either directly or indirectly concerned with us in the war against Japan is both logical and timely, and should be clearly understood by all countries which so far have enjoyed the lend-lease privilege. There has been too much confusion of thought in the matter, due to failure to distinguish between strictly war requirements and needs for postwar rehabilitation of lend-lease recipients.

The whole concept of lend-lease is that of a war measure and we should never have allowed any other interpretation. With the war in Europe ended, certain powers allied with us in that war are not at war with our remaining enemy, Japan. It is logical that they should no longer expect lend-lease aid, for the qualification for such aid from now on by any nation can be only its direct or indirect participation in our war against Japan. Yet it is far from clear whether this simple and fundamental principle underlies future policy.

While discussion of any Soviet role in the Pacific war is apparently officially frowned upon, high Administration quarters are reported to have promised that lend-lease will be continued to all those now receiving aid including the Soviet Union until "final victory" has been achieved. With the German war won, this could only mean the Japanese phase and thus seems in conflict with an earlier decision to limit lend-lease grants as cited above.

That there is a tremendous problem of relief and reconstruction to be faced in Europe and elsewhere is plain and we know that in our own interest, we must assume a leading role in the task of getting normal life going again. But that is hardly a job to be handled on a lend-lease basis.

THE TREND TOWARDS DIVERSIFICATION . . . To the long-range observer of our industrial scene, the trend towards concentration and diversification among American corporations has always been a fascinating subject. To the alert investor, it has also been a profitable one.

The time of new great vertical or horizontal business combinations, so popular in the early phase of the merger, era is of course largely passed. In its stead we have been witnessing pursuit of corporate growth and earnings stability by means of complementary combinations, offering not only worthwhile diversification of the productive effort but also greater freedom from antitrust proceedings due to the non-competitive character of the merger components. This trend today continues strong in many fields and promises to be productive—in the postwar era—of a good many of this new type of "growth companies" meriting exceptional investor attention.

In a special article in an early issue, we shall delve into the situation and see what's going on in this respect. No reader should miss it, for this study will not only be informative and interesting but outline special situations with far above average appeal.

As I See It!

BY CHARLES BENEDICT

PLAYING FOR HIGH STAKES

It has always interested me to see how our press invariably calls attention to the inept handling by our representatives when important international discussions are taking place. This critical attitude is a phenomenon which does not exist in any other country—and should not exist in the United States—for it greatly handicaps and harasses those who are trying to serve our country sincerely and fully, in the face of the greatest obstacles. Take for instance San Francisco.

To read the news one would believe Mr. Molotoff was a great tactical genius. The press gasped over the brilliance of his silences—over his inaccessibility—and even the staccato of his scintillating utterances—all of which had to be translated because they were made in Russian. In contrast, our own leaders were reported most patronizingly, despite their substantial accomplishments under odds which called for the greatest restraint and the continuous use of brilliant tactics and perfect judgment. In a word, what apparently was expected of them was infallibility, which is attributable only to God. As a result, the reporting frequently beclouds the issues.

The trouble with this Conference, like those others which have gone before it, is that Russia will not stay put—and continuously creates confusion where understanding has been thought to exist. The truth of the matter is that we have been appeasing Russia for a very long time—never knowing what new tactics she would pursue and to what extent she would live up to agreements arrived at. We have had to go along pretty much in the dark because Russia made it a point to keep us in ignorance regarding her plans, at the same time insisting that we accept this unprecedented situation on trust and blindly give her cooperation to the full.

"THE SILENT WATCHER."

—From the N. Y. Times

Russia's behavior regarding Poland would normally be looked upon as reprehensible. And her latest attempts to justify her position by bringing President Roosevelt's interpretation into the situation is very invidious indeed, for we all know that President Roosevelt refused a seat for the Poles at San Francisco because in his opinion Stalin had not reformed the Lublin Government in accordance with the Yalta understanding. It is a matter of record, too, that both President Roosevelt and Prime Minister Churchill suggested candidates who at no time were anti-Russian and that Stalin refused to consider any one of them.

It must be clear to any observer that the various Russian demands and complaints at the Conference were retaliatory measures of attack on either the United States or Britain, rather than sincere attempts to find a solution to world peace. For example, the bombshell calling for eventual free status for all colonial states was directed at the British Empire, and is in itself somewhat absurd in the face of Russia's insistence on sweeping control of all territory annexed by her armies. This did not sit very well with the American Delegation, and Mr. Stettinius countered with a demand for an International Bill of Rights calling for the personal liberty of the individual—a condition which has never been granted to the people under the Russian system—whereupon Mr. Molotoff withdrew his motion with almost unseemly haste.

In fact, while demanding "hands off" on anything relating to Russian plans and the Russian viewpoint, that government is deliberately meddling in the internal affairs of every other nation. Her latest demand on Sweden to suspend the publication carrying a story on Stalin unpleasing to the Russian Government and insisting further on the prohibition of articles of this kind in the future, is a case in point and well illustrates the inconsistency of Russia's attitude—and why dealing with her calls for the greatest patience and tolerance.

It is clear that a show- (*Please turn to page* 224)

Wisest Market Policy Now

Current yields on the great majority of stocks have become considerably less attractive, and the uncertainties in the intermediate-term outlook are increasing. With immediate trend indications indeterminate, we favor a cautious, rigidly discriminating policy, though our viewpoint is bullish on the longer term market prospect.

BY A. T. MILLER

THE recent action of the market reflects a fairly close balance between caution and optimism on the part of investors and speculators. Following the belated official announcement of VE-Day, which had been extensively celebrated before it became official, there was a brisk sell-off. However, it failed to develop any cumulative selling pressure; and in the subsequent selective performance there has been much more strength than weakness.

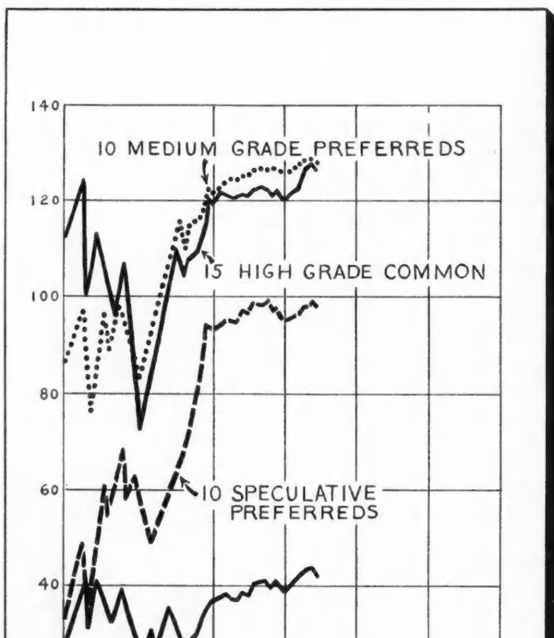
Our weekly index of 290 stocks is at a new bull market high, although by only a narrow margin. Its move over the past fortnight was due mainly to speculative demand, for it may be noted that the index of 100 low-price stocks is in new high ground, while the index of 100 high-price stocks is not. The trend of the latter is comparable to the Dow industrial average, which at this writing is within close striking distance of the previous high, but not through it.

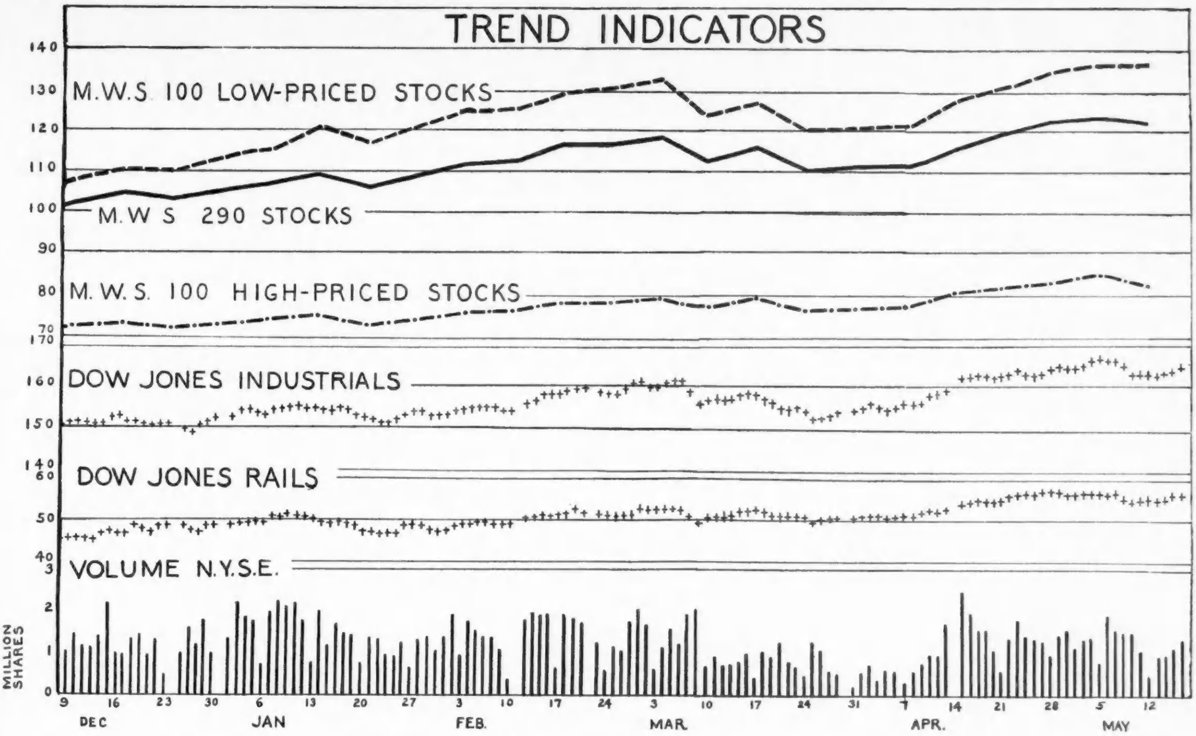
For the first time in many months, the rail average is playing a secondary role. It made its high to date on April 28, ahead of the industrial average. In the reaction right after VE-Day, it declined considerably more sharply than the industrial average. It was relatively less strong than the industrials on last week's recovery. In addition to other considerations, rail investors and speculators have been given two new complications to ponder. One is the hint — and such hints always seem to bear fruit these days — of coming demands for higher pay by the railroad labor unions. The other is the historic Interstate Commerce Commission decision, announced over this past week-end, ending rate differentials on class freight in southern and western territories. How the rails will respond remains to be seen.

The rail average has been "churning," with no significant net progress, for about four weeks. Possibly this is merely technical consolidation, for the prior advance of rails this year was much greater percentagewise than in the industrial average. But only time will tell whether it is a resting phase or a distributing phase. Meanwhile, because goodly numbers of active traders "read" the market in terms of the Dow averages, the recent inferior action of the rails raises a question. Following extensive advance, the development of divergent backwardness in either of the two Dow averages has often preceded a considerable decline in both. The reason, if there was originally any, is no longer material. If enough people act on a principle of speculation, it doesn't have to have a reason.

It should be emphasized that the dubious chart pattern of the rails is, for the moment, entirely tentative. It is a technical cloud, so to speak, which might evaporate in short order — or precipitate something of a storm. Sentiment on the intermediate market outlook is mixed, and not very emphatic. In this spot, probably more people than usual will let the market do their thinking for them. If the averages soon rise to new highs, well and good. If a scare should develop — which is why we have cited the question mark raised at this writing by the rails — we would not be surprised to see more selling develop than this bull market has at any time heretofore had to contend with.

We believe the longer-term prospect is bullish. We do not see how it could be otherwise in view of the financial-economic fundamentals now existing or in the making. Waiting to be served is a record-





breaking need for goods, in both the domestic and export markets. Equally unprecedented is the vast expansion in our money supply, and in the mobile savings of individuals and business concerns. This war, like all major wars of the past, probably will be followed by at least several years, possibly more, of active business. Tax reduction — at least to the extent of elimination of the onerous excess profits tax — can be anticipated. Finally, there is a basis for increased confidence in the political environment.

If this is so, why does The Magazine of Wall Street emphasize caution and rigid selectivity in its intermediate market outlook? That is a fair question, and we will endeavor to answer it.

First of all, real bargains — as measured by current dividend yields in relation to high-grade bond yields — have long since become very scarce. This means that the bull market has come to rest more and more on longer-term hopes. Never in our experience has an expected future prosperity period of such uncertain timing been discounted so far in advance. Moreover, there are a number of unpredictable bridges to be crossed before we reach the peacetime prosperity period. If we have been a bit early in emphasizing these transitional uncertainties, that does not make them any less real now that they loom close at hand. To hold that they can be ignored is to hold that a bull market already over three years old can be expected to run on through the rest of the war and the reconversion, and then into the post-war catching-up boom. To expect this, without an intervening reaction of large scope is, in our opinion, to expect too much.

Consider for a moment the time factor in the Japanese war. That is of vital importance — yet we don't know the answer to it, and neither can anybody else. It **might** end very soon, while we are barely started on the reconversion of industry. That would inevitably mean a severe economic jolt and large-scale unemployment. Could the market take it in stride? We don't think so.

Suppose, on the other hand, that our most pessimistic military observers are right in predicting a long, hard war. That would imply the following: (1) An indefinite projection of a dual war-peace economy; (2) a considerable reduction in the present war output, for even a long war with Japan would not conceivably take the maximum war production we built up for two wars; (3) the simultaneous increasing production of consumers' durable goods while peak war-time taxes are still in effect; (4) producing both war and civilian goods, but with priority for the former, production costs on the latter would be abnormally high; (5) given a long Japanese war, backlog needs in lighter type consumers' durable goods might be largely made up under an adverse level of costs and taxes; with the same true for at least part of the anticipated automobile boom. So examined, long war would not be bullish.

And whereas confidence in the domestic political outlook is increasing, the opposite is true of the world scene — with Russian objectives and policy a source of increasing concern. This may change. We don't know.

That there are shock potentials in the intermediate outlook seems patent to us. If, nevertheless, the market goes still higher this summer, its vulnerability must be proportionately increased. We therefore continue to believe this is a time for caution, for maintaining prudent cash reserves, for very careful shopping around in instances where accounts are not adequately invested.

— Monday, May 21.

Ticker tape blankets the area as Wall Street celebrates V-E day

Survey and Forecast of Our Economy

. . . *As European War Ends*

BY E. A. KRAUSS

THE task of unwinding our economy from a two-war to a one-war basis is at hand and the problems of reconversion loom challengingly before us. They are not to be tossed off lightly, yet somehow reconversion, now that we face it, is losing a good deal of its terror. This is as it should be, for there are no insuperable obstacles.

Not so very long ago, we were told that reconversion would be far tougher than initial conversion to war, that the "road back" would be longer and rockier than the "road in," and that along the former, there would be black clouds of mass unemployment, reckless relief measures, and bigger and better Treasury deficits. We know now that this is hardly likely.

One reason for this belief is that we shall have not just a VE-Day but a whole VE-period leading into what is now called the war's "Phase 2." We have been acquainted with official blueprints based on military needs between VE-Day and VJ-Day and designed for a quick start on civilian production. Official confidence is high that adequate manpower and materials can be freed to follow the pattern laid down.

There are, however, weighty questions and a good many imponderables that do cast a haze over the outlook as it is taking shape now. The questions are natural enough and therefore frequently asked by business and industry. They would like to know, understandingly, just exactly where we go from here, how much reconversion, how much industrial recession during "Phase 2" and how long the latter's duration. The answer holds vital economic implications, yet obviously there can be no definite answer at this time. But in the meantime, whether VJ-Day comes early or late, business struggling to get into peace-time production and rebuild peace-time markets will have its hands full. From the standpoint of its effect on our over-all economy, industry's aggregate reconversion experience can hardly be exaggerated.

As to that experience, there is no ready chart covering the next few months but we do have a broad outline of the prospects facing Americans in the second phase of the war that permits of certain deductions beyond the estimates and approximations applied to individual sectors of our economy. This outline, prepared by War Mobilizer Fred M. Vinson, makes no attempt to minimize the remaining military job ahead or the complicated task of partial reconversion.

In the field of production he forecast a continued high rate of output, equaling even six months from now the high level of 1943. Thus in the next three

months, net total decline of war production will range only between 10% and 15%. Larger cuts cannot take place until the long supply "pipelines" to the Pacific have been filled. Thereafter it is estimated that the needs for the Pacific war will continue so great as to necessitate the maintenance of production at not far from two-thirds of the schedules of the first half of this year, in other words an over-all cut of about 30% by December 1945.

Production Potentials

Specifically, what does this mean to industry? Inevitably VE-Day will be followed by a decline in industrial activity, for war production is bound to fall faster than civilian production will increase. This is particularly true of the so-called VE-period that has already begun and may continue for an estimated four or five months. During this span, war output will be cut 15% but civilian output will be held back by reconversion preparations and bottlenecks of various kinds. By the end of the year, contraction of war output will have reached some 30%. Since war output accounts for well over half of total industrial production, the Federal Reserve Board index of industrial production by then may conceivably be slightly over 20% below the present level of 236, which compares with the war-time peak of 247 in the fall of 1943. A 20% drop would bring it down to around 190, possibly even somewhat lower before gradual expansion of civilian goods output will really begin to exert its offsetting influence. A production index of 190 would bring industrial activity back to the level of 1942; it might well become stabilized — until the approach of VJ-Day calls for sharper cutbacks — within the range of 180 to 200 for the balance of the one-year period after VE-Day.

Government agencies have drawn up a workmanlike plan to effect as smooth a transition as possible. The adoption and skillful administration of this program would go far towards efficient expansion of civilian output simultaneously with the sharp cutbacks yet to come, reducing to a minimum the lag between these two moves and thereby creating some sort of cushion against undue economic unsettlement.

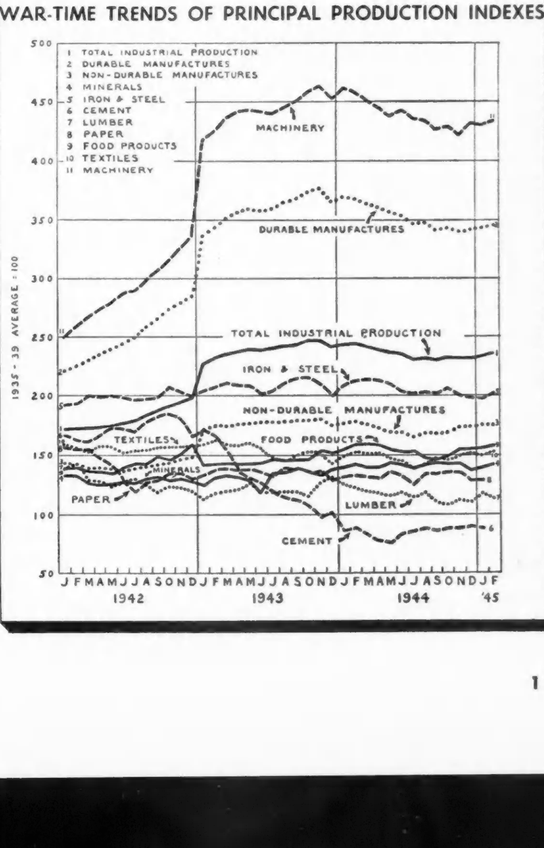
An outstanding feature of this plan is the emphasis placed on a break-even rate for reconverted industries. Official planners fully recognize that resumption of normal production at too low a level will mean substantial operating losses. Hence estimates have been compiled, covering 72 durable goods industries, of the time it will take them to attain a break-even rate of production, and both cutbacks of war orders and resumption of civilian output will be designed to reach such minimum rates as quickly as possible. In part at least — though materials shortages also enter — this desire to synchronize cutbacks with reconversion speeds may well have something to do with latest hints of an initially rather slow reconversion tempo. Such programming is all to the good; it takes full advantage of our ability to reconvert step by step rather than abruptly, thanks to the stabilizing effect of continued war requirements.

In effect, then, what we shall witness is a slowdown in the war boom but no severe setback if the Japanese war continues. Total factory output now is over 230% of the prewar average. Cutbacks will reduce production to some 210% near the end of this year, and to something like 195% during the forepart of next year with little change for the remaining war period since rapidly mounting civilian goods production can be relied upon at least to offset subsequent widening cutbacks. Only with the end of the Japanese war will industrial activity be in for a really sharp drop which temporarily may nearly halve over-all industrial production.

The production changes looming for various industry groups in the durable goods field are illustrated in the appended table, covering current quarterly production, the estimated break-even dollar volume and the time it will take to attain it, and finally all-out capacity production levels which could be reached after the war and the time it would take to achieve. While the figures, based on the latest reconversion report of the WPB, are necessarily estimates, implications for profits and jobs are obvious though difficult to measure. They do however highlight the prospective tempo with which civilian production will be able to take up the slack created by cutbacks during "Phase 2," the period between VE-Day and VJ-Day.

Investors will be particularly interested in the estimated break-even periods, for they give an inkling of what to expect earningswise. The automobile industry, for instance, says it will need eight months after its war contracts are cancelled to build enough passenger cars (some 2,000,000 units) to make money. All 72 industries, now turning out war and essential civilian goods at a $14 billion annual clip, estimate their full-scale postwar output at around $10 billion or a drop of 28% in dollar volume. To break even financially, they will have to get production up to at least $5.5 billion annually A requisite for such a production rate is some $26 million worth of construction (not yet undertaken)

WAR-TIME TRENDS OF PRINCIPAL PRODUCTION INDEXES



Reconversion Tempo and Potentials of Selected Durable Goods Industries

Industry	Current Prod. per Quarter (000 omitted)	Minimum or Break-Even Rate of Prod. per Quarter (000 omitted)	Break-Even Rate (No. of Months)	All-out or Capacity Rate of Prod. per Quarter (000 omitted)	All-Out or Capacity Rate (No. of Months)
Passenger automobiles	$2,152,500	$620,500	8	$1,127,400	15
Appliances, small elec.	8,000	6,000	3	9,000	3
Furniture, metal, household	28,000	4,950	2	15,000	2
Ranges, electric, dom.	——	4,400	5	11,000	9
Refrigerators, mechanical	141,225	30,589	6	93,251	12
Sewing machines	16,572	2,423	6	7,447	9
Vacuum cleaners	52,255	8,000	3	12,100	4
Formed steel sanitary ware	30,000	5,000	2	25,000	2
Oil burners	9,200	6,000	2	10,000	3
Warm air furnaces	52,500	9,000	0	15,000	1
Cash registers	12,840	3,200	2	8,000	4
Office machinery	81,725	32,000	N.A.	52,500	3
Typewriters	17,500	12,000	1	30,000	3

N.A. — not available.

for plant expansion and reconversion alterations. To achieve all-out production, these expenditures must ultimately be stepped up to $234 million and that explains why a high rate of normal output cannot be achieved in a hurry.

As the table shows, the time element for attaining a break-even rate of production varies considerably from industry to industry, and it will probably vary from plant to plant. Mind you, the time periods given are not the periods required to undertake reconversion but the time by which it is estimated that the companies **after** their reconversion start can break even financially. Thus they indicate the length of time during which earnings will be nil and operating losses will probably occur. These can be avoided, of course, in cases where some war work is still carried on. On the whole, the periods are short and about in line with expectations for the various industries.

The outlook for jobs under reconversion, closely tied up with production, is naturally a matter of great concern but views vary greatly. Mr. Vinson in his report opines that the vast majority of the 52 million civilian workers are in jobs which will continue during the first six months after VE-Day regardless of cuts in war production. Of these, only about nine million are in war plants, a large proportion of which must continue munitions production for the Jap war.

During the next six months, he estimates that probably about 1,500,000 workers will lose their jobs. A larger number will be out of war work but they will continue in the same jobs, producing for civilian consumption. Unemployment, much of which will be temporary, is not expected to total more than 2,500,000 at the end of the next twelve months, as compared with the present total of 1,000,000. However, shutdowns may cause some serious local situations, especially in so-called one-industry towns.

On the other hand, the War Manpower Commission expects a "marked easing" of the labor market in the first quarter following VE-Day but a rapid re-tightening as reconversion gets under way in the second and third quarters with the result that by the end of that period, many areas will again be short or at best delicately balanced from the standpoint of labor supply and demand.

This somewhat roseate thinking contrasts with the view elsewhere in official quarters that during an extended "Phase 2," unemployment will probably rise to some four million. In these circles, the sentiment is "if we keep the figure below three million, we shall be doing well."

The uncertain employment prospect finds reflection in the approach to the wage-price question. Price and rationing controls, wage controls and above all, high taxes will continue in order to keep the transitional economy on an even keel, to avoid inflationist as well as deflationist trends. The latter possibility is by no means ignored; there is virtual unanimity that post-VE-Day wages have to remain high and prices low, that production of civilian commodities must hit maximum capacity as soon as consistent with the drive against Japan. As to wages, the WLB has a number of schemes to keep workers' pay near high war-time levels; it probably will be done by maintaining present rate ranges and even raising minimum wages in low-wage industries under the wage-hour law, the objective being maintenance of purchasing power of the masses. According to present indications, the transitional wage program may well mean higher hourly wage rates in a good many instances. Unless price ceilings rise proportionately, it is bound to squeeze profits. Some fear this may discourage high-cost producers from expanding output or promptly resuming normal operations. Possibly with this in mind, the OPA lately has given to understand that it will pursue a "reasonable" policy as to pricing of reconversion goods, and outlined a flexible program based on cost "realities." However, a good deal remains to be clarified in this respect.

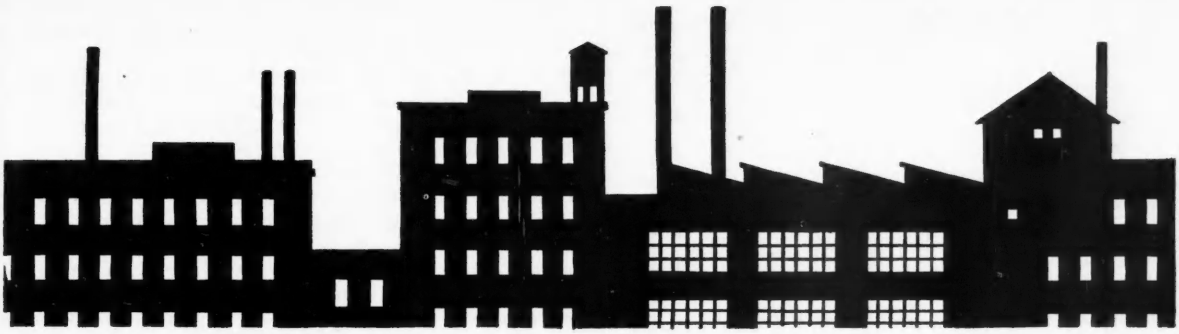
All this means that price ceilings will stay with us for quite some time, both those now existing and new ones to be established. It is part and parcel of the economic stabilization (*Please turn to page* 217)

The Road to War

(as portrayed by principal economic indicators)

	1940	1943	1944
FRB production index, total (1935-39 equal 100)	125	239	235
dto. durable goods	139	360	353
dto. non-durablegoods	115	176	171
Gross national product $ billion)*	92.6	172.1	192.0
National income ($ billion)	77.6	147.9	156.0
Consumer expenditures ($ billion)	65.7	91.0	101.4
Net savings of individuals, annual ($ billion)	7.3	33.7	39.9
Govt. revenues, net ($ billion)*	5.38	22.28	44.14
Govt. expenditures ($ billion)*	8.99	78.17	93.74
Annual govt. deficit ($ billion)*	3.61	55.89	49.59
War expenditures $ billion)*	1.65	72.10	87.03
Total war expenditures to date ($ billion)	6.37(c)	110.78(a)	275.75(b)
Income tax receipts ($ billion)*	2.12	16.09	34.65
Govt. debt $ billion)	43.0	140.79	202.62
Armed forces (million men)	1.0	10.5	11.5
Employment (million persons)	45.6	50.4	51.2
Cost of living index 1935-39 equal 100)	100.2	123.6	125.5
Wholesale price index (1926 equal 100)	78.6	103.1	104.0
Average weekly factory earnings (dollars)	28.54	45.10	47.45
Farm income, annual ($ billion)	9.10	19.75	21.039

* Fiscal years ended June 30.
(a) To June 30, 1943, (b) To March, 1945, (c) To June 30, 1940.



Companies With Large Tax Windfalls

—Resulting from Excess Profits Tax Refunds

BY H. F. TRAVIS

ALMOST immediately on the heels of VE-Day an alert Congress is preparing to strengthen the national economy during the transitional period now definitely here. Senator George, Chairman of the Senate Finance Committee, the special committee on Postwar Economic Policy and Planning, and of the Joint Committee on Internal Revenue Taxation, is the pivotal figure in these activities.

For many months past this latter group has been intensively at work studying ways and means to stimulate and assist industry under the impact of partial reconversion until the final defeat of Japan, in close consultation with the Treasury Department and other advisory sources. Definite recommendations of the Committee, fully approved by Secretary Morgenthau and by Representative Doughton, the latter as Chairman of the House Ways and Means Committee, have now been submitted to Congress, where the groundwork has been laid for its speedy consideration. Chances are excellent that without changing current tax rates, recommendations to change the Internal Revenue Law provisions enough to "un-freeze" some $5.7 billions of cash for business concerns during reconversion will be rapidly translated into law.

These constructive measures to fortify financially the nation's enterprises largely center upon a theme of speeding up settlement of Treasury refunds and easing of certain restrictive controls. With war expenditures by the Government likely to be about $70 billion yearly until Japan folds up, it is held unwise to shrink Treasury revenues by any reduction in actual income tax rates, not to mention the potential inflationary threat which such a step would produce. But to swell industry's cash by cutting red tape and prompt settlement of Government obligations will substantially benefit many a concern, for the strain of readjustment from military to civilian production, alleviated though it may be by continued war in the Far East, could prove disastrous to many components of our industrial structure, especially the smaller units.

Working capital of industry as a whole has of course risen enormously during war years, but its distribution has been uneven; tens of thousands of small concerns have produced a volume of war business far in excess of normal standards and these particularly may need early assistance if the broader problem of sustaining high level employment throughout the country is to be successfully met. Larger and better heeled concerns are already pulling subcontracts back into their own plants, a progressively increasing trend, thus thrusting into the immediate foreground for the minor suppliers problems of high reconversion expenses and possible temporary deficits, presently not protected by adequate bank balances.

Equally and perhaps even more important is the goal of encouraging expansion of small or new enterprises, presently timorous of possible "strangulation," as Senator George expresses it, from overheavy tax burdens and long delays in settlement of Federal refunds. As consideration of all these aspects requires immediate rather than postwar action, the proposed VE "interim" program should meet with widespread approval of the substantial relief and encouragement it offers to all business concerns. A great number of opulent corporations of course need no financial assistance of any kind, but the mere elimination of much expensive red tape will tend to reduce their costs, and too much cash during reconversion is not likely to prove burdensome.

Recognition of the particularly severe impact of EPT on smaller concerns or those of limited earning power has induced a Committee proposal to extend specific exemption of net earnings from excess profits taxes from the present level of $10,000 to $25,000, beginning with 1946. If the significance of this improvement is not apparent at first glance, it should be realized that a substantial portion of the national income from goods and services is

Postwar Tax Refund Accounts Now Sizable

	Estimated Postwar Tax Refund	Refund per Share of Common Stock
Addressograph-Multigraph	$ 385,000	$ .51
Allegheny Ludlum Steel	3,211,000	2.54
American Brake Shoe	1,313,000	1.65
American Locomotive	6,092,000	4.40
American Woolen	2,560,000	6.40
Artloom	117,000	.39
Bendix Aviation	14,147,000	6.68
Borg Warner	5,856,000	2.38
Bridgeport Brass	1,684,000	1.78
Carrier Corp.	557,000	1.34
Caterpillar Tractor	1,679,000	.89
Chrysler Corp.	3,804,000	.87
Crucible Steel	4,558,000	10.25
Deere & Co.	3,751,000	1.24
Dow Chemical	1,563,000	1.25
du Pont de Nemours, E. I.	23,002,000	2.07
Eastman Kodak	10,211,000	4.12
Elastic Stop Nut	1,006,000	1.46
Electric Boat	1,616,000	2.25
Endicott Johnson	483,000	1.19
Fansteel Metallurgical	620,000	2.38
Federal Motor Truck	523,000	1.06
Firestone Tire & Rubber	4,946,000	2.54
Fruehauf Trailer	701,000	1.76
General Electric	34,915,000	1.21
Goodrich, B. F.	5,834,000	4.48
Hazel-Atlas Glass	1,984,000	4.57
Hercules Powder	4,442,000	3.28
Ingersoll Rand	4,506,000	4.49
International Bus. Mach.	6,640,000	6.08
International Harvester	3,815,000	.86
International Paper	3,028,000	1.65

earned by small business concerns and that almost half of the nation's workers are employed by this highly diversified group.

How a difference of a few thousand dollars in taxable earnings, so vitally important to these small concerns, can force them under or out of the EPT liability, and their numerical importance, is readily demonstrated. For the tax year 1943, when the specific exemption was $5000, approximately 68,000 corporations filed returns showing EPT liability. In 1944, with the exemption raised to $10,000, the number declined by 17,000 to 51,000. While declining war demand by 1946 would probably bring a further reduction to about 31,000 even under a $10,000 EPT exemption, it is estimated that not more than 19,000 concerns would experience EPT liability next year with the proposed exemption of $25,000. Thus compared with 1943 nearly 50,000 concerns with earnings in the lower brackets would have a very burdensome load of tax liability lifted from their shoulders, with corresponding benefit to their working capital.

As regards the impact upon Government revenues from the proposed change in EPT exemption, Treasury receipts are estimated to decline by about $160 million. EPT liabilities, to be sure, would decline by some $300 million but nearly half of this would be offset by additional income subjected to normal tax provisions, the latter with its 40% squeeze on net earnings still remaining in effect. The indicated net loss in Federal revenues would be less than 2% of total corporate liabilities for both income and EPT taxes.

Conceivably even this modest percentage might be reduced by the additional business activity and corporate earnings which reasonably would evolve from the enactment of such a measure, for both old and new enterprises will surely take heart at the prospect of a new horizon in figuring prospective profits; psychology as well as finance enters the picture. All in all, while the proposal will mean little to thousands of larger concerns, to the majority it will mean much. All around it will be viewed as a step in the right direction, and certain of broader definition as time goes on and the exigencies of war diminish.

The Committee proposes another change in the Revenue Law designed to conserve cash resources of all concerns currently struggling with the complexities of EPT. Under regulations now in vogue, exemption from EPT may be figured in either of two ways, at the option of the taxpayer; average net earnings during the 1936-39 period may be taken as the base, or a percentage of net earnings upon invested capital, the rate of which depends upon the size of the company. Any failure by a concern to earn the chosen standard in a particular year entitles it to credit the deficiency against taxes paid in the two previous years. To accomplish this means a complicated process of reopening the books, filing amended returns, and an indefinite delay in securing an approval of the claim by the tax authorities. If the claim exceeds $75,000, furthermore, approval must be secured from the Joint Committee on Internal Revenue Taxation, sponsors of the currently proposed legislation. This is the often mentioned "carry-back" privilege in the present tax law.

Sums involved in such claims for refund often run into very large amounts, and from this period of the war onward their size and number are likely to be augmented as cutbacks and cancellations rudely affect the earning capacity of concerns producing military items. The problem is further complicated by the fact that until audited earnings for the complete fiscal year can be determined, no claims for refund can be filed, as estimated earnings have not been acceptable evidence. For one reason or another delays of months or years before settlement of claims can be completed and refunds made frequently tie up important amounts of working capital legitimately belonging to the claimant.

Speedier Payments

To improve the situation described by speeding up payment of carry-back claims, the Committee recommends their payment by the Government in not less than 90 days after they have been filed, even if based upon pre-audit figures, and where the amount involves more than $75,000, the Treasury Department can so report to the Joint Committee **after** rather than before making the refund.

Equally important is the suggestion to allow a concern to apply an estimated or anticipated deficiency in its earnings under the EPT standard to current payment of taxes due for the previous year. In both cases 6% interest would be charged on unwarrantable claims which future audits might disclose. While it is not possible to estimate closely, such cash refunds during 1945-46 are likely to total about $1 billion. Concerns with both large and small earnings subject to EPT will share in resultant benefits. As an example of how the plan might work with immediate benefit when in effect, assume that a concern is now making quarterly payments

on $1 million taxes accrued in 1944, but experiences a sudden cancellation of all war orders now on its books, thus forcing it to estimate full 1945 earnings as likely to be $750,000 below its EPT standard. This deficiency would cancel the company's obligation to pay the remaining $750,000 due for 1944, whereas under present regulations the payments would have to be continued, with prospects of ultimate refunding by carry-back claims the only hope.

Quicker Refunds

A third proposal involves the speeding up of refunds arising from re-computation of amortization deductions. As the law now stands, emergency facilities certified as necessary for national defense may be amortized over a five year period, the term "facilities" including not only factories but in many cases special machinery as well. Within the time specified the emergency may terminate, if the manufacturer for any reason can no longer use facilities for war production, in which case permission is granted to recompute amortization on a basis of time during which they were actually used. As in other cases discussed, this process entails the same expensive and long drawn out administrative procedure involved in filing carry-back claims, and similar delay in obtaining funds urgently needed for reconversion. To speed up the payment of these Government obligations, the Committee recommends their payment in not later than 90 days.

If the volume of "certificates of necessity" continues at the present monthly rate until December 31, 1945 and assuming that date will terminate average claims for amortization refunds, it is believed that the increased allowances to be spread over the 1941-45 period might amount to $2.9 billion, out of a total cost of $6.8 billion certified facilities, but in actual tax accounting the net amount to be refunded would be reduced to approximately $1.7 billion. For industry to receive such a substantial sum within 90 days after filing claims would certainly not be immaterial.

Most significant of all the proposals are changes in provisions of the present Law relating to postwar tax credits. As a partial offset to EPT taxes, liabilities for these — in excess of a 40% allowance for debt reduction — are the basis of a 10% return to the taxpayer in the form of non-interest bearing bonds, payable by the Government on or before six years after the cessation of hostilities, depending upon their date of issue. Complete satisfaction of these really compulsory loans to the Government might not occur for from two to six years after the war and as these postwar Credit Bonds are not negotiable, a very large amount of money is tied up. If the war should end next month, bonds based on 1945 taxes would not mature until 1951 under the present law.

To alleviate the handicap of capital tied up in postwar credits, two recommendations have been made. (1) Permit such 10% credits to be taken currently with respect to tax liabilities of 1944 and subsequent years. (2) Advance the maturity date of postwar refund bonds to January 1, 1946. If the first mentioned change becomes effective, the credits could be applied to reduce amounts of unpaid 1944 taxes currently outstanding, or if these had already been paid, a claim for a refund could be made. The amount of post-war credit applicable to 1944 tax liabilities which this would make available by the end of 1945 is estimated at approximately $830 million, with a relative figure of $710 million for 1945. By this means a total of almost $1.5 billion cash could be conserved by thousands of concerns to help meet their reconversion requirements.

If outstanding postwar credit bonds, or those to be issued, were to be made negotiable in order to make cash available immediately, administrative problems would be increased. Additionally, as the bonds bear no interest they would have to be sold at a discount, a theoretically undesirable circumstance. The recommendation to Congress to advance the maturity date to January 1, 1946 accordingly was the only alternative, and by this process many industrial concerns could convert a substantial amount of paper into useful cash. Cash also will be paid in all cases where bonds have been previously certified but not issued. The Committee estimates that the net amount of post-war credit bonds involved in this proposed prepayment by the Government would be $480 million for 1942 credits and $820 million for 1943, while cash credits or refunds would retire bonds applicable to 1944 EPT.

The appended table lists some of the many concerns reporting postwar EPT tax refund bonds among their assets, and the amount of cash per share which would accrue if the bonds are rendered convertible next January. In a good many cases, the figures involved are quite respectable. It would mean that these amounts, now carried as general assets, will become current assets, strengthening a company's working capital position to that extent. Such a bolstering, in many cases, will be a real windfall, perhaps obviat- (*Please turn to page* 211)

Postwar Tax Refund Accounts Now Sizable

	Estimated Postwar Tax Refund	Refund per Share of Common Stock
Jacobs Aircraft Engine	$1,036,000	$1.67
Lee Tire & Rubber	519,000	1.73
Link Belt	2,838,000	3.95
Mack Trucks	3,137,000	5.25
Marion Steam Shovel	226,000	2.26
Martin, Glenn L.	8,663,000	7.70
Mead Johnson	752,000	4.56
Monarch Machine Tool	882,000	4.20
Motor Products	600,000	1.53
Mueller Brass	589,000	2.22
National Steel	3,756,000	1.70
Packard Motor Car	4,624,000	.28
Paraffine Cos.	114,000	.24
Philco	2,353,000	1.71
Radio Corp. of America	5,470,000	.40
Remington Rand	1,795,000	1.02
Revere Copper & Brass	2,554,000	1.98
Rustless Iron & Steel	852,000	.92
Saco-Lowell Shops	491,000	1.96
Savage Arms	550,000	.82
Spencer Kellogg & Sons	719,000	1.17
Stanley Works	1,296,000	2.70
Stewart Warner	2,927,000	2.25
Studebaker	1,475,000	.63
Superior Steel	350,000	3.09
Sylvania Elec. Products	2,041,000	2.03
Underwood Corp.	988,000	1.34
Union Carbide & Carbon	12,014,000	1.29
Union Twist Drill	1,661,000	8.30
United Aircraft	4,190,000	1.57
Westinghouse Electric	17,867,000	5.71

Impact On OILS...

if drilling costs are not permitted to be charged off as current expenses

BY
GEORGE L. MERTON

Standard Oil Photo by Rosskam

Attaching elevators to drillpipe during a drilling operation.

SUDDEN changes in the technical regulations governing Federal taxation of corporations sometimes make a vast difference in the earning power of the industries affected. Thus one or two adjustments in the Federal taxes on utility holding companies greatly increased the earning power of this group in 1943-44. Much of the railroads' wartime prosperity has been due to their favored position tax-wise. The producing oil companies have also been favored by generous allowances for expense charge-offs and their excess profits tax burden has been lower, on the average, than that of many other industries — but a recent tax ruling threatens to upset this situation and put a "crimp" in the oil industry's earning power.

The U. S. Circuit Court of Appeals in New Orleans, in a recent decision, overthrew a Federal tax regulation which, during the last 27 years, permitted the oil and natural gas industries to deduct certain intangible expenditures for well drilling and development as a current expense, and thereby to reduce considerably their taxable income. This decision came at a critical time for the industry as well as for the national war effort. It may help to explain why Mr. Ickes can promise us only a small increase in gasoline allowance, and no increase at all in next winter's fuel oil rations, despite the ending of the European war. Mr. Ickes was greatly worried some two years ago over the decline in the drilling of new wells. Subsequently there was a considerable increase in drilling (despite a scarcity of labor and materials) because of the fact that the cost of drilling dry holes could be offset against earnings from other sources, thus saving up to 85½% taxes against such income (excess profits taxes). If only one well out of three or four proves successful, the company might still be ahead of the game on balance, hence present heavy taxation was a direct incentive to take greater chances in drilling, and helped to restore the balance against wartime difficulties and reduced profit margins. Now this balance is threatened and drilling is rapidly falling off again.

The Court's decision resulted from a consolidated action of the F.H.E. Oil Company and the Fleming-Kimball Corp., in an appeal from a decision of the U. S. Tax Court. The latter court upheld a decision of the Commissioner of Internal Revenue disapproving allowances for intangible costs of drilling on property leased *where there is an obligation to produce a well within a certain number of days* (or otherwise to lose all rights). The court ruled not merely on the narrow issue as to the limited time for drilling, but went further to hold that **all** expenditures for intangible drilling operations should lose their tax exemption. This despite the fact that the present excess profits tax law definitely authorizes deduction of such intangible costs.

The Circuit Court has been considering a petition for a rehearing of the decision. According to press reports, the oil industry may not carry the case to the Supreme Court although, of course, the two small companies involved might do so. Instead, a committee for the industry hopes to expedite new Federal legislation which would definitely legalize the tax exemption.

The Treasury Department has in the past objected to the liberal treatment permitted the oil industry in the matter of charge-offs. Not only were the companies allowed to charge off "dry holes" but they have also been allowed a liberal deduction for depletion of oil and gas reserves, resulting from regular production. Treasury experts hold that the amount of income thereby freed from taxation has little or no relation to the actual cost of the depleted property.

It is possible that the various regulations are somewhat over-generous in their combined effect, and that some companies have been able to take considerable advantage of them during the wartime period. On the other hand this would seem to be a

bad time, from a practical standpoint, to disturb conditions which have prevailed for many years, and to do anything that may tend to decrease production of such essential war commodities as oil and gas. A sharp drop in drilling in the third quarter has been forecast, and numerous cutbacks have already been reported in the important West Texas field. While the Internal Revenue Bureau has given some assurances that it will ignore the court decision unless directed by law to change its policy, many oil companies are afraid to jeopardize their earnings. Though the big companies could afford to carry on, many small operators lack extra cash resources and cannot afford to risk heavy tax burdens.

Position of Individual Companies

Because of the highly technical character of the tax problem it cannot be analyzed in detail here. Oil companies do not have any standardized accounting procedure in publishing their reports to stockholders, and their reports to the Treasury Department are not readily accessible for study. However, it may be of interest to review the 1944 income statements of some of the important companies and attempt to gauge roughly the effects which the new court ruling — if upheld — might have on earnings for stockholders.

Continental Oil in 1944 drilled 423 wells of which 131 proved "dry." Intangible development costs amounting to $15,995,234 were charged off as expenses against current income. Assuming this amount were affected *in toto* by the court ruling, earnings would be reduced (on the basis of 40% normal taxes only) from $2.57 to $1.20. It is possible, however, that part of the item could be transferred to depletion or other items which might continue as tax deductions.

Barnsdall Oil made a substantial charge for intangible development costs, but this was only about two-thirds of the amount actually expended which was capitalized and then amortized on a unit basis of production. It is possible that this method of accounting, which is also used by Gulf Oil and Texas, may avoid some or all of the difficulties involved in the court ruling. The court's contention was that the costs are permanent improvements, not a temporary expense, and that they can be recovered through the depletion item (which is considered overlapping). However, even though the intangible costs are "spread" by capitalization and amortization, it is still dubious whether, under the Treasury Department's rules, this could be thrown in with depletion — which, in theory at least, applies only to oil and gas actually discovered and held in reserve. Barnsdall's amortization cost apparently saved normal taxes equivalent to about 28c a share.

Gulf Oil also uses the amortization method. If the entire amount ($19,413,000 in 1944) should be discarded as a deduction, the increase in normal taxes would amount to 86c per share (the company earned $4.54 last year).

Humble made a straight charge for "dry hole costs" of $11,714,000; since it paid excess profits taxes last year, the tax saving was equivalent to 56c, compared with earnings of $3.37 per share.

Ohio Oil made a charge for "non-productive wells" which, on an E.P.T. basis, apparently saved 23c for stockholders ($2.30 was earned). Phillips Petroleum charged $4,622,504 for intangible development costs. The estimated tax saving was 38c, bringing earnings up to $4.26. Plymouth Oil earnings were affected by "depletion, intangible development costs" to the extent of 18c a share on an E.P.T. basis. The accounting method is not clear. Richfield Oil would apparently be hard hit. Dry hole losses and abandonments permitted a tax saving estimated at 57c, out of the 98c reported earned.

Seaboard Oil charged off $4,293,347 for intangible drilling and development costs last year, compared with only $1,881,283 net profits for stockholders. Even on a normal tax basis net income might be wiped out if these special costs were no longer permitted in the income account.

Shell Union reported an item "amortization (100%) of intangible development expenditures" amounting to $19,526,252, and also an item of $2,526,006 for "surrendered leases, abandoned wells, retirements, and miscellaneous write-offs." These were in addition to the usual depreciation, depletion and amortization items totaling over $35,000,000. Since the company paid excess profits taxes, it might be substantially affected by the court ruling; renegotiation of contracts is another complicating factor.

Sinclair deducted an item for "cancelled leases, dry holes and retirements" which, on an E.P.T. basis, apparently saved stockholders about 57c (out of $2.29 earned). Part or all of this might be affected by the ruling. Skelly Oil had an item "cancellations and write-offs of undeveloped oil and gas properties, etc.," the tax saving on which is estimated at $1.10 on an E.P.T. basis.

Socony Vacuum, as mentioned above, uses the amortization method and last year capitalized intangible development costs at $13,048,514; amortization however amounted (*Please turn to page* 211)

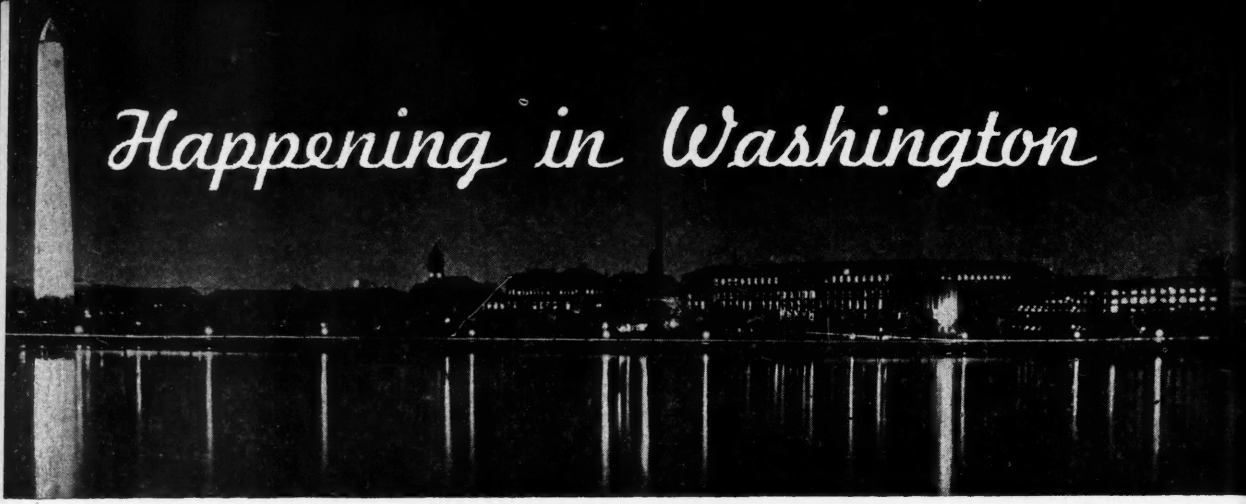
Intangible Development Costs of Leading Oil Companies ('000 omitted)

	1939	1944
Amerada Petroleum	$2.889	$11.472
Atlantic Refining	3.212	5.325
Barnsdall Oil	1.345	1.558
Cont'l Oil	8.960	15.995
Gulf Oil	N.A.	19.412
Houston Oil	.059	.145
Humble Oil	N.A.	11.713
Louisiana Land & Ex.	N.A.	.929
Mid-Continent Pet.	1.000	1.717
Ohio Oil	.582	1.781
Phillips Pet.	3.536	4.622
Plymouth Oil	.207	.475
Quaker State Oil	N.A.	.100
Richfield Oil	1.189	2.667
Seaboard Oil of Del.	1.419	4.293
Shell Union Oil	16.591	19.526
Sinclair Oil	1.024	7.973
Skelly Oil	.680	1.267
Socony Vacuum	4.515	13.048
South Penn Oil	.466	4.120
Standard Oil of Cal.	8.207	15.461
Standard Oil of Indiana	.004	9.040
Standard Oil of Ohio	N.A.	8.736
Sun Oil	3.342	16.782
Sunray Oil	.262	.905
Texas Co.	14.353	23.602
Texas Gulf Prod.	.161	.231
Texas Pacific Coal & Oil	.138*	.339

*1940

N.A.—Not Available

Happening in Washington



Charles Phelps Cushing Photo

By E. K. T.

TRANSITIONAL wage program drafted by National War Labor Board to be effective during the period of industrial changeover will be a boon to collective bargaining as offering the most effective means for preserving the status quo pending arrival of the time when wage scales will have to be gone over thoroughly. But it offers little to the employer. It means higher pay rates — hourly rates, that is. Unless ceilings rise proportionately it will squeeze profits, discourage high-cost producers from expanding, or resuming normal operations.

> ### *Washington Sees:*
>
> Advisers to President Truman are urging him to make a complete report to the nation on the condition of relationships with Russia, but they agree no useful purpose will be served by further opening up the subject to debate while the United Nations Conference is in process on the West Coast with some hope — if a dwindling one — that major issues may be moved along the road to resolution.
>
> The President may decide not to wait. There is every present indication that State Secretary Edward Stettinius, Jr., will walk the plank when the business of San Francisco is over. To link his displacement with a report on Russia which cannot be complimentary to the present state of friendships would be tantamount to accusing Stettinius of responsibility. And he definitely is not to blame. He had no influence at Yalta, had very little to do with preparing the agenda for the current meetings. His late chief, President Roosevelt, took a role matching that of Churchill and Stalin abroad, and of Eden and Molotoff in planning the world organization meetings. His experience and influence with other world leaders might have carried international relations through the storm but when the duties fell to Stettinius he just wasn't up to the huge task.
>
> It was foreordained that the "genius for disagreement" which is evident could not have been prevented. But Truman's aides are convinced he must speak, and soon, if the world is not to be sent back to the conditions of a huge armed camp.

COMPROMISE is ahead on the Vinson-George conflict in tax revision policies. War Mobilizer Vinson holds there should be no general reduction until Japan falls; Senator George wants cuts imposed promptly, on both corporate and individual levies. Vinson will draw support principally from those who hope to bring federal income and outgo into closer balance — but balanced budgets aren't within view and won't be for some time. Chairman of the Senate Finance Committee, George also is in the better position, strategically.

FEDERAL insurance is funneling huge amounts of money into the hands of veterans who signed up under the National Service Life Insurance system and is helping cushion their return to civilian life, entry into business. More than 17 million policies have been issued for average face value of slightly more than nine thousand dollars. More than one billion has been paid to claimants — and, important, much of it went to men who for one reason or another couldn't qualify for maximum assistance under the GI Bill of Rights.

CANCELLATION of lend-lease aid to Russia isn't exactly what it sounds like. And it isn't likely to disturb the Soviet greatly. F E A Administrator Crowley was careful to say "new shipments" would be withheld from countries not at war with Japan. V-E Day released equipment abroad which would keep the Red Army supplied for years; and UNRRA's work will continue, relieving Russia from the necessity of pouring huge tonnage of food into liberated areas.

SUPREME COURT'S decision upholding portal-to-portal pay demands by bituminous coal miners attracted wide attention but actually wrote no new principle into the law establishes no precedent.

AS WE GO TO PRESS

Victory in Europe means many things and creates many problems, but paramount is jobs. That's the immediate impact upon every town and hamlet in this country. Cushioning effect will be War Department's decision to reconvert slowly -- in brackets of 10 per cent.

Enthusiasm generated by last Fall's apparent -- but erroneous -- notion that Germany was through brought into existence a program for immediate 40 per cent reduction in arms output. Reviewed in the light of developments, army will move more cautiously.

Conclusion that it is cheaper and more expeditious to leave much material now in Europe, than transport it over the thousands of miles to the Pacific, is of fundamental importance.

It means tapering off in war plants, economy in shipping space, speedier movement of troops in great number -- and that adds up to earlier end of the war against Japan.

Enormous as the cost of war has been, this country can better afford -- economically -- a war than a depression. That realization accounts for the concentration upon full employment which is second in Washington only to the war itself.

The simple arithmetic of the depression is that it totaled, in taxpayers money, about 275 billion dollars. That's much more than the war will cost when contract cancellations and sale of surplus war materials are taken into consideration.

The sixty million-job program is an accepted part of government planning today. First laughed off as idealistic, the Murray Bill is as good as on the statute books today. It will pass congress, get Truman's approval.

Fact that Congress has maintained close watch upon government contracts during the war -- not after the war, as was the case a quarter century ago -- will aid reconversion. No one claims there are "war millionaires" today. And 120,000 factories which converted to war have, with few exceptions, built up records of good conduct.

Relaxation of W P B limitation orders will come fast. But greatest spur to business will be a new tax bill scrapping the theories which have keynoted those of recent years. Not so much to reward business as to insure employment, Congress will provide incentives via tax reliefs.

Foreign trade barriers will evaporate. Present prospect is that Congress may go too far in that direction. But expediency is the watchword: there is a prospect of ten million jobs in handling the export and import trade alone.

Placed on top of present farming employment, the demands of other nations -- largely to be met by mechanization of farms -- agriculture holds out a potential fifteen million jobs. Never impotent, the farm bloc in congress really has "something to sell," in the post-war period.

Housing is coming into the picture with increasing importance. Long the best housed population in the world, the United States today is ten years behind the standards it set for itself. Manpower, alone, to build the absolute minimum of dwelling units would give ten million men work for five years.

Consumer goods will begin appearing in the market in the next sixty days but will be scarce for at least a year. The War Production Board is releasing materials for every-day household necessities, but in "token" quantities.

Proposed constitutional amendment to limit federal income tax to 25 per cent maximum can be counted out. More states are rejecting than are adopting the resolutions essential to bring about constitutional change -- it requires 36.

And, again on taxation: states which have been growing tax-fat during the period of Federal war expenditures are about to have one of their sources of income clipped. The O'Hara Bill will become law and it will end double taxation of persons paid by the federal government. That means millions.

Government contracts have brought hundreds of thousands of workers commuting into states which have income tax laws but haven't had much success building up their coffers. The new incomes have been a bonanza. But the O'Hara Bill will permit taxation only in the state of residence, not at the point where the pay envelope is filled.

Bretton Woods will be the theme of international financing bases. Bankers have been divided on wisdom of the program but are coming more and more to regard the government-guaranteed plan a good offset to any benefits lost in a world market gamble.

Bad weather will reduce crop outlooks by not less than ten per cent. That increase the problems of the canners who already are told they must absorb increased costs in raw materials and labor, will get no relief in the shape of higher ceilings.

That may prove unfortunate. Program is to supply our own needs first, then those of liberated countries. But, especially in the case of Italy, the United States has been pictured as an unlimited granary and that just isn't so. There will be repercussions.

Rationing will become tougher on the domestic front. To that extent V-E Day has proved disappointing. President Truman has attempted to brush off criticisms of O P A with complimentary statements but the fact is becoming clear that the basic errors have been from within.

Industrial users of sugar will feel the first direct impact of rationing in the final three months of 1945. Bakers, confectioners and others in related lines will receive only one-half their normal poundage.

Cuts in quotas for shortening, soap and margarine also highlight a tight picture. Soap may even be rationed, but O P A hopes to avoid that action because it brings home too intimately the scarce condition of the market. The hand that rocks the cradle still rules the cash register.

Biggest problem of the next few months will be railroad transportation. Deployment of troops from Europe to the Pacific will be by water insofar as possible but strain upon freight and passenger cars can't be avoided.

Boxcar shortage continues the weak point. Actually, 2,000 freight cars are moving westward each day when 3,000 would be taxed to their limit. And denial of blanket deferment of railroad workers will intensify the problem.

War Department is re-examining its commitment to move foods to the liberated countries. Present idea is to give the Germans bread and let them fend for themselves otherwise. The demobilization plan will take two million men out of Europe in a few months, but it also will take the facilities for moving food in, distributing it.

Special Selections For Profit In Quality Stock Movements

BY STANLEY DEVLIN

SINCE the beginning of the bull market three years ago, stock prices have indeed come a long way as illustrated by the 200% advance of our broad 290 Stock Index during that period. This of course tells only part of the story of the major uptrend. The general bull market pattern, consisting of three primary upswings and two intermediate reactions of sizable scope, has provided excellent buying opportunities in virtually all divisions of the market though most of the time, trading accent was distinctly on low-priced rather than higher priced equities. As a consequence, the former fluctuated rather more widely, attracting the bulk of wartime speculation; yet movements in quality stocks were certainly not devoid of really worthwhile profit potentials. To the conservative investor faced with the problem of bolstering steadily narrowing income by enhancement of value, quality stocks constituted an excellent medium to achieve that goal without exposure to ordinary speculative risks. With wise timing, the latter could be reduced to a minimum.

Although the out and out speculator, basically dependent upon price movements for his profits, has an exciting day to day experience in testing out his market gauging proclivities, judicious timing even for the long-term investor may become a decided adjunct to his program. Income to the latter is a primary consideration and in placing his investment stakes, his confidence in both income return and growth in value rests fundamentally upon industrial management rather than upon stock market gyrations. While it goes without saying that timing to achieve a satisfactory yield is desirable, the investor seldom has the patience or ability to wait for a cyclical depression to let him in on any ground floor; it is essential that his money be put to work. If he is fortunate, his purchase may be consummated at a relatively favorable level in an intermediate downward trend, but unless he is very experienced, his timing necessarily is more or less haphazard. He buys his stock as best he can, tucks his certificates away in the safety box and waits for his dividends to drift in. As time goes on, a rise or fall of stock prices may or may not interest him at all, as he has bought for the longer pull, although this may not necessarily mean a fatalistic freezing of the investment. Unless his dividends increase from time to time, however, yield is altogether based upon the original price of his securities, and continues perhaps constant until caution or personal need induces a liquidation of the investment, for better or worse. Such psychology and procedure undoubtedly features the program of the majority of occasional investors, as a group far outnumbering professional or highly sophisticated buyers; but with no sacrifice of fundamental safety, a continued application of timing can importantly bolster income by capital gains.

To cite an interesting case where an average investor applied continued timing to his program advantageously, with no outside advice and even upon rather unorthodox principles in some respects: A retired business man in the early 1920s placed an order to buy a very substantial number of American Tobacco B shares, explaining to the surprised broker that he was determined to put all his eggs in one basket rather than to diversify. For reasons of his own he had 100% confidence in the concern for a long range investment and had neither the time nor inclination to watch a broader portfolio. Least of all did he wish to speculate. His one idea was assured income. However, he explained, if Tobacco B shares happened to rise 20 points in price, he wished to sell and invest the proceeds in Government bonds, until he could reinvest in the stock at a lower price. To his manner of reasoning, 20 points of profit equalled four or five years of dividends, and he doubted if he would have to wait that long to replace his investment. Unfortunately, it is impossible to state just how this program ended, beyond the fact that at least once a year for six years this investor profitably switched back and forth between his favorite equity and Liberty bonds, measurably increasing his spendable income or amortizing his original investment, yet never abandoning the intrinsic soundness of his position, although a little diversification would have been still more conservative, without importantly affecting results.

Whether from the viewpoint of a hard-shelled investor, a professional speculator, or the intermediate

class of buyers with an eye to appreciation in their holdings or to combined income and growth potentials, the relative volatility of the most seasoned investment equities presents an interesting study. Compared with innumerable non-dividend payers in the low price range, with stocks in groups highly sensitive to cyclical influences or with unusual growth potentials, the more stable oldtimers of course have less speculative appeal as a rule. Yet the volatility of the soundest veterans, passing severe tests of investment analysis offers surprisingly interesting price swings considering their relative freedom from inherent risk.

Appended is a table listing a number of concerns enjoying an unbroken dividend record for at least 20 years past. While the list is far from complete in this category, and is not intended as a blanket endorsement of their investment characteristics, these companies have displayed strength and stability through booms, depressions and war, in some cases several wars and many cyclical storms. The table reveals the price range of their common stock in 1937 and during each year since 1942. A final column indicates the current dividend rate for those who like to compare this with the price ranges given.

Indicative of wartime appreciation of the stocks in this special group compared with that represented by our Combined 290 Stock Average, the former during the current bull market rose on an average of about 82.5% against approximately 200% for our broad stock index. While the relative showing is modest, over a more normal period the gain for the group would be considered very substantial indeed and reflecting satisfactory speculative potentials as judged by ordinary standards. Furthermore, the lesser risk involved would be worth the differential, from the viewpoint of cautious investment policy. Both in 1943 and 1944 intermediate reactions interrupted the progress of the bull market, now entering its fourth year. A glance at the table will disclose the sensitivity of these high class investment favorites to market swings. Without exception in each of the five years tabulated, a substantial degree of volatility will be noted in the case of every company listed. To be sure, a wide variation in volatility of different stocks is noticeable, but as a group they were quite active, thus justifying interest in a program of "continued timing".

Volatility of "Blue Chips"

Just why so many stocks of highest investment caliber should experience as much volatility as they do, in view of their established reputation for carrying on through good and bad times, is really a curious phenomenon. Mass psychology, of course, is an ever-present and often dominating factor in forcing prices up and down, but combine all of possible influences that come to mind and they do not adequately explain why volatility should be so expressive in these proven income stocks as compared with the comparatively sluggish performance of many far less desirable corporate bonds.

Considered individually the stocks of all the concerns shown on the table furnish material for interesting study, but it is only possible to discuss a few in the light of their volatility. Take duPont, for example, with its immense working capital and unfailing ability to distribute income to its stockholders, $2.75 per share even in the depression year of 1932, and paying $5.25 in 1944. Yet the price range of the stock in 1937 was 82 points apart. And during the three years after Pearl Harbor, not less than 25 points in each period offered an opportunity for adroit timing. Not that the most clever investor or speculator could determine either the high or low points in the numerous price swings, but even partial success could have doubled or tripled income from dividends.

One of the bluest of all "blue chips" is Singer Manufacturing, currently selling at about 300, perhaps not an excessive premium for an equity which has an unbroken dividend record for decades past, annual payments ranging from $6 to $48 per share, not to mention occasional dividends paid in stock. Yet compared with a 1942 low of 130, the wartime gain has been 130% or far (*Please turn to page 213*)

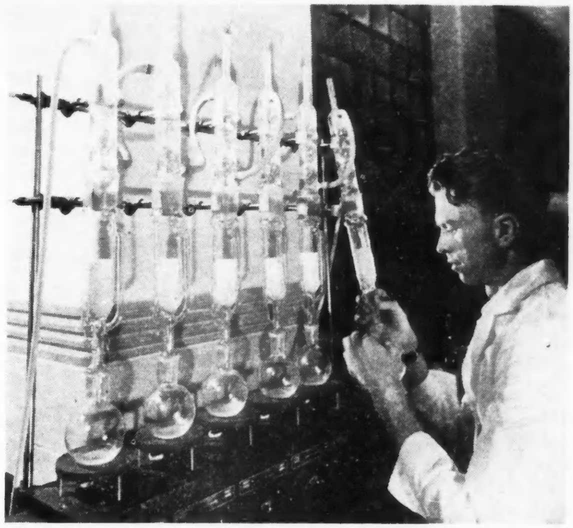
Annual Price Ranges of Selected Quality Stocks

	Price Range					
	1937	1942	1943	1944	To May 5, 1945	1944 Div.
Amer. Can	121-69	74¾-56⅝	91¾-71½	95½-82	99½-89½	$3.00
Amer. Tobacco	99-57	49¾-33½	63¾-42½	75-56¾	74¾-65	3.25
Air Reduction	80¼-44½	41¾-29½	48⅞-38¾	43-37¼	49-39⅝	2.00
Amer. Snuff	67½-46	36¼-29	45-35¾	45⅝-39⅜	45¾-41½	2.40
Amer. Chicle	112-90	103-69	112¾-96	131⅛-108½	129-112½	5.00
Borden	28-16	22¾-18⅜	30-22½	34⅝-28¾	37¾-33½	1.70
Beechnut	114¾-90¾	110¾-64	114-93	121-111¼	118-114	5.00
Dow Chemical	159¼-79½	134½-95	153-122¼	131-114¾	142½-122⅞	3.00
Du Pont	180⅛-98	144-102¾	159¼-134	162½-137	172¼-155	5.25
Cont. Can	69⅛-37½	28⅜-21⅛	36⅞-26½	43¼-32½	47⅞-37½	1.00
Gen. Electric	64⅛-34	30¾-21½	39⅞-30¾	40⅜-35	44-37⅞	1.40
Gen. Amer. Tran.	86½-31½	46¾-35	51-37	54¾-41¾	55⅞-49	2.50
Eastman Kodak	198-144	151½-108	170-146½	178-157	183¼-174	5.00
Int. Bus. Mach.	189-127½	151½-109⅞	177-144½	188-154⅞	189-173½	6.00(a)
Owens Ill. Glass	103¾-51¼	57¾-43¼	64-54½	64-55¼	69¾-58	2.00
Pittsburgh Pl. Glass	147¼-80	86½-55¼	98-84¾	125¾-95	142-117	4.25
Pepperell Mfg.	151-58½	101-81	125-104	158½-125	177½-151½	10.00
Singer Mfg.	370-221½	182¾-130	241-175¾	295-229	300-267½	12.00
Natl. Lead	44-18	16¼-11⅞	20¼-14	25½-19	29¼-24	1.00
United Fruit	86¾-52	72½-48½	76½-60¼	91¾-75¼	101-89⅞	3.25
Underwood	100⅛-46¼	46-28⅞	59-42	66-51¼	64⅝-58¾	2.50
Union Carbide	111-61¼	83-58	86⅜-76⅝	82¾-76	93½-78½	3.00
Wrigley	76-58½	62-39	70⅛-58⅛	74⅛-58	74½-69½	3.00
Burroughs Add Mach	35⅝-15	9⅝-6¼	15⅜-9¼	15⅜-12⅛	16-13⅞	.70
Cluett Peabody	29⅞-13¼	36½-25⅜	40-33¼	39½-34½	44½-35⅞	2.00
Coca-Cola	170½-93¾	92-56½	123-88	146½-111	141-132	4.00
Colgate-Pal-Peet	25¾-8½	17¾-11½	25-16½	33½-23½	35½-31⅛	1.75
Corn Prod.	71¼-50½	58-42¼	61⅛-53⅝	61⅜-52⅛	67-58¼	2.60
Diamond Match	36½-18¼	27¼-18	33½-26	35½-28⅞	38½-33½	1.50
Intl. Harvester	120-53½	61-40	74¾-56⅜	82½-67¾	90-74½	2.85
Lorillard, P.	28⅝-15⅜	16⅝-11½	21½-16¼	20⅜-7⅜	23¾-18⅞	1.00
Proctor & Gamble	65½-43¼	52¾-42	58-48½	59-52⅜	60⅞-55	2.25
Pullman	72⅛-25½	28⅝-20¾	40⅛-26¾	52⅛-37½	54⅝-47¼	3.00
Texas Co.	65⅛-34¾	42¼-30	53⅜-41⅞	50¼-44⅝	55-48⅝	2.50
Stand. Oil of Ind.	50-26½	29-20	38¾-28⅛	34⅜-31	38½-33⅝	1.50

(a)—Plus 5% Stock

1945 Re-Appraisal of CHEMICAL INDUSTRY

BY J. C. CLIFFORD



THE chemical industry has been publicized more greatly and glamorously than any other. This is understandable. It is the No. 1 example among "growth industries"; and from its laboratories there continues to come scientific discoveries both fascinating and important. For both reasons, it is perhaps the most interesting and colorful of industries.

But it is a reasonable assumption — or so this writer believes — that investors are primarily concerned with such prosaic things as the outlook for earnings and dividends; and the question whether specific stocks are or are not attractively priced in relation thereto. In all too many instances, "glamorized" articles on the chemical industry have been heavy on generalization, light on the kind of facts which have true investment significance.

Moreover, the great emphasis on the "growth" factor can be criticized on two counts. First, it has aided many investors in arriving at the quite erroneous assumption that almost every chemical company is a "growth company" because it is in a "growth industry." Second, the term "growth" — like the word "speed" — does not have a great deal of meaning as a generalization. Thus, one measures the speed of a train or an automobile in precise terms of distance and time. Although the "growth" potential of an industry or a company can not be judged so precisely, even so investors are entitled to more guidance on the time element than they usually get.

A Factual Appraisal

In this article there will be no glamor. So far as possible, it will attempt to stick to facts and figures, and conclusions based thereon. First, the facts on the growth of the industry and the apparent future trend, later some facts and opinions on the individual companies.

The best measure of the industry's long-term physical growth is the Federal Reserve Board's sub-index of chemical production. From 1923 to 1929, this index advanced from 57 to 89 or by over 73 per cent; while the composite index of manufactures advanced from 86 to 110 or by about 28 per cent. From 1929 to 1932 the chemicals index declined less than 24 per cent; while aggregate volume of manufactures declined nearly 40 per cent. In 1937, top year of the last pre-war up-cycle in business, the chemicals index was 112 or almost 26 per cent above the 1929 level; while total manufactures stood at 113 or less than 3 per cent above 1929.

These facts attest a strong growth impulse in the chemical industry, but since chemicals serve every industry, the demand for them is by no means immune to fluctuations in general business. Over the five years 1932-1937, 21 points of the rise in the chemicals index was recovery, 23 points was growth. Thus, growth was 4.6 points a year. But the five-year over-all rise in the index averaged 8.8 points a year, while the (mainly) cyclical rise in the composite index of manufactures averaged 11.2 points a year.

Growth of the industry, in any event, is a long-term matter. Thus, even at the expansion rate of 1932-1937 — which was magnified by the fact that it started from an unusually depressed level, it would take over 12½ years for the industry's peak pre-war physical volume to double.

Under war demands the index of chemicals production rose to 404 in 1943, or not far from four times the pre-war high; and has since declined to around 310 or 198 points above the 1937 figure. However this data includes explosives, magnesium and certain other items in which the great bulk of present demand is purely a war-time manifestation; and in which the bulk of output centers in Government-owned plants. In its own business, so to speak, the industry does not face a serious end-of-the-war deflation.

Most of the larger chemical companies have lower earnings now — but only moderately lower — than they had in their best pre-war years. The exceptions are mainly, as in other industries, among companies which didn't fare very well before the war.

Looking ahead to the "catching up boom" after the war, in the writer's opinion, a projection of, say, 160 for the index of chemicals production would seem a reasonable expectation. At such a level, with the excess profits tax eliminated and a tax rate of no higher than 40 per cent, well-situated companies probably would earn considerably more per share than is now being earned and materially more than

in the best years before the war.

There is no fully satisfactory long-term record of total dollar sales, since some of the largest companies did not reveal sales figures for 1929 or earlier years. However, since there have been long-term declines in average prices received, it can be stated that growth of dollar sales has lagged somewhat behind growth of physical volume. In this connection, without minimizing the importance of newer products, it should be noted that many chemicals for years have been just as much standard as are coal or iron or various other familiar industrial materials; that for many companies these "unglamorous" chemicals are the bread-and-butter part of the business; and that demand for them is influenced mainly by general business conditions.

Census figures put total dollar value of "chemicals and related lines" in 1939 at $1,364,000,000, against $1,346,000,000 in 1929, or a gain of only $18,000,000 in a decade. The figure was 2.40 per cent of the total value of manufactures in 1939, compared with 1.91 per cent in 1929.

We have referred to "bread-and-butter" chemicals. Again using census data, here are some 1939 sales totals: acids $82 million or $10 million less than in 1929; alcohols $41 million, or some $25 million less than in 1929; ammonia $10 million, or $3 million less than in 1929; chlorides $19 million or $1 million less than in 1929; hydroxides $38 million, or $8 million less than in 1929; insecticides and fungicides $66 million, or $2 million less than in 1929; rosin and turpentine $17 million or $19 million less than in 1929; sulphates $23 million, or the same as in 1929; wood distillation products $21 million, or $7 million less than in 1929; carbon and other blacks $15 million, or $5 million less than in 1929; fertilizers $162 mililon or $71 million less than in 1929.

The "growth" over that decade was mainly in coal tar products, acetates, compressed and liquified gases, phosphates, plastics and — above all — in a long list of chemicals defined by the census as "miscellaneous."

There are no aggregate long-term earnings figures for the industry. The writer has compiled composite figures for fourteen of the larger companies, excluding single-based companies such as sulphur,

Comprehensive Statistics Analyzing . . .

($ millions unless otherwise indicated)	Air Reduct. Co.	Allied Chemical	Amer. Agri. Chemical	Amer. Cyanamid	Columbian Carbon	DuPont	Freeport Sulphur
CAPITALIZATION:							
Bonds at par	24.500	....	....	25.218	....	....	....
Pref. stock at market	....	....	....	16,300	....	214,376	....
Common stock at market	123,120	346,491	18,840	109,633	52,357	1788,710	29,600
(shares outstanding, in thousands)	2.736	2.214	628	2.707	537	11.110	800
Recent market price, $ per share	45	156½	30	40½	97½	161	37
Total capitalization	147,620	346,491	18,840	151.151	52,357	2.003,086	29.600
Long term debt	....	....	....	....	....	....	0.350
INCOME ACCOUNT:	12/31/44	12/31/44	6/30/44	12/31/44	12/31/44	12/31/44	12/31/44
Gross Sales	97.948	274.104	33.055	28.851 (b)	23.562	646.168	18.004
Depreciation	3.932	15.785	622	6.558	3.193	33.940	.634
Taxes	10.694	27.170	2.880	12.000	1.800	112.580	1.510
Net available for bond interest	17.167	....	....	19.420	....	....	....
Bond interest	........(a)	....	....	760	....	....	....
Pref. div. requirements	....	....	....	741	....	7.560	....
Balance for common	5.877	18.025	1.819	5.919	3.179	80.870	2.558
Net operating margin	16.9%	16.4%	13.7%	....	18.6%	24.8%	23.7%
Net profit margin	6.0%	6.5%	5.5%	....	13.4%	12.5%	14.2%
% earned on capitalization	24.8%	23.6%	21.1%	19.3%	15.5%	25.6%	17.3%
No. of times interest charges earned	....	....	....	25.5	....	....	....
Earned on common, per share	$2.15	$8.14	$2.90	$2.19	$5.91	$6.60	$3.20
Earned on common, % of market price	4.7%	5.2%	9.6%	5.3%	6.0%	4.1%	8.6%
1936-43 avge. earnings per share	$2.38	$9.37	$2.16	$1.99	$6.27	$6.43	$3.04
dto., % of market price	5.3%	6.0%	7.2%	4.8%	6.4%	4.0%	8.2%
Dividend rate	$2.00	$6.00	$2.00	$1.35	$4.00	$5.25	$2.00
Dividend yield	4.4%	3.8%	6.6%	3.3%	4.1%	3.2%	5.4%
BALANCE SHEET:	12/31/44	12/31/44	6/30/44	12/31/44	12/31/44	12/31/44	12/31/44
Cash assets	33.150	128.798	12.873	43.157	8.964	145.757	12.483
Inventories, net	9.901	27.621	5.170	29.560	2.029	83.855	6.105
Receivables, net	10.056	18.949	2.427	14.141	2.418	46.392	2.348
Current assets	53.107	175.368	20.470	86.858	13.411	288.546	20.936
Current liabilities	18.881	35.185	5.558	31.882	3.370	60.916	4.784
Net current assets	34.226	140.183	14.912	54.976	10.041	227.630	16.152
Fixed assets, net	27.973	65.911	4.851	36.286	19.448	245.478	3.049
Total assets	90.323	294.174	29.273	138.932	37.204	928.658	29.808
Current asset value, per share	$19.41	$79.20	$32.59	$32.17	$24.97	$25.97	$26.17
Book value, per share	17.15	107.35	37.69	22.91	59.76	49.15	29.26
Net current asset value, per share	12.50	63.31	23.74	20.36	18.69	20.48	20.19
Cash asset value, per share	12.11	58.17	20.49	15.98	16.69	13.12	15.60
Current ratio	2.8	5.0	3.7	2.7	3.9	4.7	4.3
Inventories, % of sales	10.1%	10.1%	15.6%	....	8.6%	12.9%	33.9%
Inventories, % of current assets	18.6%	15.7%	25.2%	34.0%	15.1%	29.0%	29.2%
Depreciation, % of net fixed assets	14.5%	23.9%	12.9%	18.0%	16.3%	13.8%	20.4%
Sales, % of total market value of common	79.5%	79.1%	175.8%	....	44.9%	36.1%	60.8%
Price—Earnings Ratio	20.9	19.2	10.3	18.5	16.5	24.4	11.5

(a)—Bond issue dated Aug. 1, 1944 — No interest paid in 1944. (b)—Oper. income.
NOTE: Dow Chemical was analyzed in detail in our April 14 issue and therefore has been omitted from this table; similarly Monsanto Chemical, only recently covered, has not been tabulated.

carbon black and fertilizer. Therefore, the record of the fourteen is better than for the chemical industry as a whole. It shows composite earnings of $188 million in 1937, against $176 million in 1929, or a gain of about 7 per cent from the peak of one peacetime business cycle to the peak of the next cycle. If we exclude duPont and Union Carbide, the two largest companies, composite earnings of the other twelve were approximately $57 million in 1937, against $63 million in 1929, or a decline of over 9 per cent. Six of the fourteen earned less in 1937 than in 1929. They were Allied Chemical, Atlas Powder, Commercial Solvents, Mathieson Alkali, Pfizer and U. S. Industrial Chemicals.

The growth of an industry, whether measured in physical volume or dollar sales, has no real meaning for investors except as translated into earning power from which dividends can be paid. The writer has made another earnings study, for all listed chemical companies which have income records going back to 1929. Readers will find it an illuminating record of long-term profit performance under peacetime conditions. The calculation is simply the highest annual earnings of the pre-war period 1935-1939, expressed as percentage of 1929 earnings. The comparison is arranged, as follows, in order of magnitude of percentage of 1929 earnings:

Monsanto Chemical 321; Dow Chemical 258; American Cyanamid 237; United Carbon 179; Heyden Chemical 160; Victor Chemical 159; Air Reduction 123; Columbian Carbon and Hercules Powder, 122 each; Union Carbide 120; duPont 119; Westvaco Chlorine 113; Allied Chemical 84; Virginia-Carolina Chemical 82; International Salt 79; Mathieson Alkali and Texas Gulf Sulphur, each at 71; International Minerals & Chemical 69; Freeport Sulphur and Pfizer, both 66; Commercial Solvents 60; Atlas Powder 56; Tennessee Corporation 50; U. S. Industrial Chemicals 18.

The one certainty about this kind of comparison is that it will not "stay put" for the future. The leaders in long-term growth of earning power after 1929 may not be the leaders in the post-war period or, if so, their relative gains may be smaller. Again, some with inferior past earnings trends may improve them through diversification and new product development. However, the comparisons do emphasize one point of investment significance. This

. . . *Position of Individual Chemical Companies*

Heyden Chemical	Int'l Min. & Chem.	Mathieson Alkali	Pfizer Co.	Texas Gulf Sulfur	United Carbon	Victor Chem.	Va.-Caro. Chem.	Union Carbide	Westvaco Chlorine	U. S. Ind'l. Chemical
...	6.300	...	...	...	...	...	...	21,000	...	...
3,895	8,217	4,464	...	...	...	...	13,206	...	9,992	...
9,261	10,420	20,286	33,250	149,760	28,556	22,096	1,944	779,352	10.413	17,578
441	521	828	500	3,840	398	749	486	9,278	353	376
21	20	24½	66½	39	71¾	29½	4	84	29½	46¾
.13,156	24,937	24,750	33,250	149,760	28,556	22,096	15,150	800,352	20,405	17,578
...				...		...	...		...	...
12/31/44	6/30/44	12/31/44	12/31/44	12/31/44	12/31/44	12/31/44	6/30/44	12/31/44	12/31/44	3/31/44
16.412	27.348	18.379	24.436	33.074	13.456	14.934	29.276	161.053(b)	18.423	37.486
0.581	0.924	1.831	0.953	0.566	2,151	0.464	0.725	14.761	.965	.942
2.437	0.680	1.080	6.295	7.355	1.075	1.747	2.125	83.306	.546	1.680
...	3.385	...	...	...	...	...	...	128.022	...	...
...	0.246	...	...	...	...	...		.674	...	...
155	0.395	0.166	...	...	...	...	1.278	...	.350	...
814	1.621	1.156	2.335	9.620	2.232	1.056	deficit	37.725	.723	1.680
17.4%	11.7%	12.4%	38.4%	56.5%	27.1%	21.7%	10.4%	...	9.7%	6.8%
5.9%	7.3%	7.2%	9.5%	29.1%	16.6%	7.0%	2.8%	...	5.8%	4.4%
38.5%	10.4%	9.7%	73.7%	30.0%	19.1%	30.8%	11.3%	59.8%	9.2%	14.3%
...	13.7	...	...	...	...	...	...	191.0	...	...
$1.85	$3.11	$1.40	$4.67	$2.51	$5.61	$1.41	def. 0.93	$4.07	$2.05	$4.45
8.8%	15.5%	5.7%	7.0%	6.4%	7.7%	4.7%	...	4.8%	6.9%	9.5%
$1.42	.18	$1.47	$2.22	$2.32	$4.54	$1.37	def. $1.19	$4.03	$2.28	$1.71
6.7%	0.9%	6.0%	3.3%	5.9%	6.2%	4.6%	...	4.8%	7.7%	3.6%
$0.80	$1.00	$1.00	$2.00	$2.50	$3.00	$1.10	Nil	$3.00	$1.40	$2.00
3.8%	5.0%	4.1%	3.0%	6.4%	4.1%	3.7%	...	3.5%	4.7%	4.2%
12/31/44	6/30/44	12/31/44	12/31/44	12/31/44	12/31/44	12/31/44	6/30/44	12/31/44	12/31/44	3/31/44
2.960	3.739	7.236	8.029	24.870	2.774	2.896	9.624	164.873	6.180	4.204
1.472	3.846	2.325	5.667	13.725	1.396	2.424	5.230	71.378	2.079	9.152
1.205	2.352	2.059	2.289	3.160	1.417	.979	3.131	54.162	1.346	4.814
5.637	9.937	11.620	15.985	41.755	5.587	6.402	17.985	290.413	9.605	18.170
2.860	1.304	2.432	9.772	8.922	1.895	.813	3.469	128.369	.877	7.111
2.777	8.633	9.188	6.213	32.833	3.692	5.589	14.516	162.044	8.728	11.059
5.310	22.631	14.538	6.504	23.220	12.730	3.507	10.750	151.521	8.509	9.967
11.901	33.641	27.738	23.922	67.866	20.624	11.004	30.694	481.179	18.524	32.422
$12.81	$19.07	$14.02	$31.97	$10.87	$14.03	$8.49	$37.00	$30.22	$27.21	$48.32
11.41	29.73	26.92	28.27	15.30	47.07	13.24	9.57	35.59	24.40	67.12
6.31	16.57	11.09	12.42	8.55	9.27	7.46	29.86	17.46	24.72	29.41
6.72	7.17	8.73	16.06	6.47	6.97	3.86	19.80	17.77	17.50	11.18
1.9	7.6	4.8	1.6	4.6	2.9	8.0	5.2	2.2	10.9	2.5
8.9%	14.0%	12.6%	23.2%	41.5%	10.4%	16.2%	18.0%	...	11.3%	24.4%
26.3%	39.0%	20.0%	35.4%	32.8%	24.9%	37.8%	29.0%	24.6%	21.6%	50.2%
10.9%	4.1%	12.6%	14.6%	2.4%	16.9%	13.2%	6.7%	9.7%	11.3%	9.4%
176.4%	262.9%	90.5%	73.3%	22.1%	47.2%	67.5%	1540.8%	...	177.1%	213.0%
11.3	6.4	17.5	14.2	15.5	12.7	20.9	...	20.6	14.4	10.5

is that the giant companies — in chemicals or any other industry — have less chance for sharp percentage gain in earnings than have smaller companies, assuming the latter are equally aggressive, even on a smaller physical plane, in product development and exploitation.

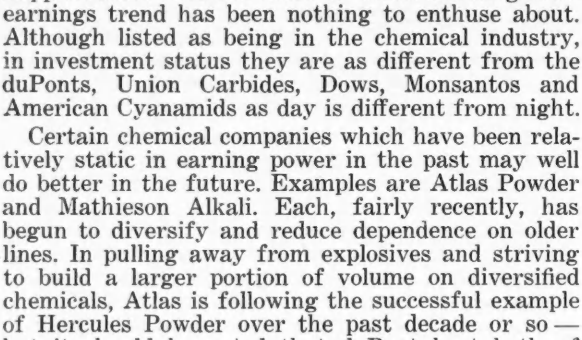
One can buy duPont or Union Carbide with assurance that they are the strongest in the field; that in research and all-around smart management they are second to none; that they have further long-term growth of peacetime volume and profits ahead of them — and yet it should be realized that, because they are so large, it takes a huge amount of new business to lift over-all profits by more than a moderate percentage.

For this reason, the writer's investment preference is for good medium-sized chemical companies such as Monsanto, American Cyanamid, Dow, and Hercules Powder — and especially the first two in this list. There are some good companies dependent mainly on such single items as sulphur, carbon black, salt or fertilizer; but such stocks should be bought — or sold — primarily on cyclical considerations. In them you get neither true growth, nor the equity of a diversified chemical company. It is no happenstance that for most of them the long-term earnings trend has been nothing to enthuse about. Although listed as being in the chemical industry, in investment status they are as different from the duPonts, Union Carbides, Dows, Monsantos and American Cyanamids as day is different from night.

Certain chemical companies which have been relatively static in earning power in the past may well do better in the future. Examples are Atlas Powder and Mathieson Alkali. Each, fairly recently, has begun to diversify and reduce dependence on older lines. In pulling away from explosives and striving to build a larger portion of volume on diversified chemicals, Atlas is following the successful example of Hercules Powder over the past decade or so — but it should be noted that duPont beat both of them to this smart idea years ago.

Second Growth Phase

The chemical business, though it has further growth ahead, is no longer young but at least fairly mature. It now is in its second growth phase. There are few secrets in it, and even fewer product monopolies. The brand name, on a plastic for instance, is exclusive; but other companies make a similar product, or one which at least is competitive in many end uses. And, as in other industries, success tends to feed on success. For newcomers to break into this field and "go places" would be a tall order. For exactly the same reason, Atlas Powder and Mathieson, (or Commercial Solvents, Davison Chemical or U. S. Industrial Chemicals) will not find diversification at this stage of the game any easy road to quickly fattened profits. In most of these instances the "new" products are not new to competitors.



In this connection, the experience of Hercules Powder, even though successful, is illuminating. Formerly dependent on explosives, this business reached a point, just before the war, where diversified chemicals accounted for about 80 per cent of volume. But there was not by any means a proportionate long-term expansion of profits. For instance, sales between 1929 and 1937 increased from $29.3 million to $44.6 million or by about 52 per cent; but net income over the same period increased only from $4.36 million to $4.44 million or by less than 2 per cent. Even so, the change in character of business done brought a higher market capitalization of earnings; and probably the same could be expected, eventually, for Atlas Powder and Mathieson Alkali. As the latter's name, of course, implies, the objective of intensified research is to reduce dependence on alkali products.

Stock prices are a decidedly fallible guide to long-term company prospects. This is because, in a bull market, investors often are unduly impressed by what a company did in the past; and are unable to foresee exceptionally favorable changes in companies whose stocks did not previously have much investment popularity. Thus, every bull market shows some drastic changes in relative valuations of individual stocks. Taking the highs in the present bull market, it may be interesting to note which chemicals have changed most in investment favor since 1929. Here are some examples, expressed as percentage of 1929 highs: Dow 250; Monsanto 239; Hercules 139; du Pont 74; Union Carbide 67; Air Reduction 66; Atlas Powder 50; Allied Chemical 46; Mathieson Alkali 37; Commercial Solvents 27; U. S. Industrial Alcohol 20. Whether there are now any such prize "dark horses" as were Monsanto and Dow in 1929 is impossible to say. There can be no preview of long-term shifts of this kind. They unfold, visibly, only as they develop.

The strong points favoring investment in diversified chemical companies are: (1) The growth factor, though it is not dynamic in most cases except over a goodly period of years; (2) a low labor element in total cost and, therefore, excellent cost control; (3) exceptional financial strength and liquidity in most cases, together with simple capitalizations, as is brought out, along with much other pertinent comparative data, in the accompanying tabulation.

The other side of it is that these advantages command a premium price. Chemical stocks sell high, and current dividend yields are pretty low. Moreover, capital gain in them actually depends more on the market cycle than on the much-emphasized long-term growth factor. For instance, an index of 15 representative chemical stocks went from an average of 38 (*Please turn to page* 212)

Position and Prospects of the AIRCRAFTS

Curtiss-Wright Photo
A group of U. S. Navy dive bombers "sitting on the line."

BY PHILLIP DOBBS

FOR the aircraft industry, VE-Day came ahead of the rest of the country. It came in fact around mid-April when in anticipation of early German collapse, the Army ordered substantial production cutbacks. The move was tantamount to writing off the European war from a production standpoint, leaving the industry geared to Pacific war needs exclusively. As a result, revised schedules will probably cut monthly output of military planes to some 5,000 by the end of the year compared with April production of 6,412 aircraft of all types. Percentagewise, the curtailment in terms of airframe weight constitutes a slash of some 15% in the entire year's production.

This development is climaxing four years of outstanding production attainments. The aircraft industry last year alone produced some 97,000 planes, exceeding the 1943 record output by over 11,000 aircraft. Last year's volume brought to better than a quarter million the total aircraft produced since 1941, of which about 233,000 came off the assembly lines since Pearl Harbor. Following that historic date, production soared steeply and incessantly, to 47,873 aircraft in 1942, 85,946 in 1943 and finally to 97,694 in 1944. Britain, by way of comparison, made 102,609 aircraft since the war's start in September 1939.

1944 aircraft production in the U. S. represented a dollar volume of $19.4 billion, despite steady downward repricing of Government contracts. This is a far cry from annual prewar sales of about $150 million; war in fact has made aircraft manufacturing the largest industry in the history of this or any other country. In four years, the number of people it employs has risen from 70,000 to two million. The industry today is more than five times as large as the automobile industry was in its year of greatest peacetime production.

These data are cited not only to spotlight the war-time achievements of American aircraft makers but to accentuate the contraction that must come with peace. The industry today is a tremendous establishment of modern plants, a total of 81 now in production; the postwar outlook is such that it will be able to use only a small fraction of its present facilities. As to employment, it is expected to shrink to some 125,000 even assuming fairly optimistic demand prospects.

Under any conditions, the reconversion of an industry of such magnitude would be a major task but in the aircraft industry certain conditions exist that make the problem unique and particularly complex. The phenomenal wartime expansion is expressive of the fact that the industry has no large established peace-time market. Moreover, pressure of war work has been so great that little or no time or attention could be given to postwar planning. The industry faces a future of which not even the broad outlines are clearly marked, and therefore a reconversion problem that is probably more difficult to gauge than that of any other major industry. The magnitude of the problem clearly hinges on the size of the postwar market for aircraft. Immediate questions such as contract termination, physical reconversion and the disposal of surplus aircraft

must be settled wisely if the industry is to survive the war in sound financial condition. The official approach to these immediate readjustment problems so far augurs well for a satisfactory solution.

While ultimate readjustments will be severe, that stage has not been reached as yet. Despite recent cutbacks, the industry still has a $10 billion backlog of orders; it is one reason why the present $716 million curtailment will prove relatively painless. Every manufacturer produces planes in which output can be stepped up to absorb labor surpluses, thus by mere shifting of workers, any large-scale layoffs can be forestalled. Altogether, the cutbacks up till now present no great problem. The real headaches will come when VJ-Day is in sight and really sweeping cancellations begin. Meanwhile, the limited cutbacks will not only clear the way for many restless subcontractors and component suppliers, notably those in the automotive field, to prepare for their own reconversion but they will provide experience which can be used as a guide in effecting contracts cancellations in other industries.

Four major producers (besides Ford's huge Willow Run plant) are affected by the schedule reduction. They are Douglas, Lockheed, Consolidated-Vultee, North-American Aviation and Curtiss-Wright. Cutbacks among makers of fighter planes involve Bell Aircraft and Grumman. In fact, schedules of all army planes have been cut in varying degree except for the huge B-29 and B-32 bombers. Even schedules for the new "Shooting Star" jet fighter made by Lockheed have been reduced though the original production peak has never been reached. On the other hand, production of Navy planes is expected to continue at present levels or higher.

Cutbacks Well Handled

The big companies are well pleased with the manner in which the cutbacks were handled. All major contractors were given weeks and months to curtail or close production of models affected, permitting them time to adjust schedules to other work or to take steps to shift workers if necessary. But bigger problems loom ahead, problems that will be accentuated by each successive slash in future production.

What for instance, is going to become of plants and facilities financed by the Defense Plant Corporation? The latter today owns 92.1% of all the aircraft production facilities built during the war. Of the overall investment, $293 million represent private funds while Federal funds so invested amount to $3,428 million. Present users hold first right to buy these facilities but will they want them and how much? Certainly not to build airplanes, for there won't be a postwar aircraft market to support their use.

The entire postwar problem was recently pointed up by William A. M. Burden, Assistant Secretary of Commerce, who predicted that potential civilian demand could not employ 10% of current produc-

Statistical Positions of Aircraft Manufacturers

	Aviation Corp.	Beech Aircraft	Bell Aircraft	Bellanca	Boeing Airplane	Consolidated Vultee	Curtiss Wright
Net Sales	61.260	90.468	232.134	15.638	608.082	960.016	1295.236
Optg. costs	52.843	80.750	219.925	5.809	571.908	890.100	1189.103
Pretax net income	9.588	9.766	10.712	1.183	33.072	66.291	98.895
Taxes	6.485	7.061	8.250	892	27.815	53.867	86.012
Balances for common	3.103	2.705	2.462	291	5.257	12.191	10.566
Net per share	$0.54	$6.76	$6.25	$1.27	$4.86	$8.80	$1.42
Year ending:	11/30/44	9/30/44	12/31/43	12/31/44	12/31/44	11/30/44	12/31/43
Cash items	11.488	23.683	16.457	.707	12.012	56.938	258.086
Receivables	5.256	4.190	68.886	2.690	83.954	118.920	231.696
Inventories	3.964	20.095	5.228	1.415	.278	129.503	213.987
Total current assets	20.708	48.417	90.845	4.812	101.617	305.361	740.198
Current liabilities	7.072	45.118	85.165	4.119	74.085	265.682	673.548
Net working capital	13.636	3.299	5.680	.693	27.532	39.679	66.650
Current Ratio	2.9	1.07	1.06	1.1	1.3	1.1	1.1
Tax Refunds	0.684	1.401	2.086	.124	8.028	2.085	17.081
Postwar Reserves	2.000	......	3.000	......	16.929	19.000	24.311
PLANT ITEMS:							
Regular facilities	3.695	4.286	4.574	.813	16.448	28.945	49.109
Emergency facilities	.748	......	......	......	4.429	2.167	......
Gross plant	4.443	4.286	4.574	.813	20.877	31.112	49.109
Depreciation and amortization	1.987	1.634	1.968	.389	10.628	13.182	30.664
Net plant	2.456	2.652	2.606	.424	10.249	17.930	18.445
CAPITALIZATION:							
Bonds	......	......	—	—	......	......	......
Pfd. stock (no. of shares, 000 omitted)	5.793	......	......	—	......	177	1,158
Common stock (no. of shares, 000 omitted)	......	400	394	229	1,082	1,385	7,432
RATIOS:							
Cash items, % of curr. liabs.	161.8%	52.6%	19.3%	17.2%	16.2%	21.4%	38.2%
Inventories, % of cur. assets	18.8	41.5	5.7	29.4	.2	42.4	28.9
Inventories, % of net work. cap.	29.1	608.9	91.7	202.1	1.0	326.2	319.3
Net work. cap., % of net sales	22.2	3.6	2.4	4.4	4.5	4.1	5.1
Postwar res., % of optg. costs	3.7	......	1.3	......	2.9	2.1	2.0
1944-45 Price Range	$6\frac{7}{8}$-$3\frac{5}{8}$	$14\frac{7}{8}$-$7\frac{3}{4}$	$16\frac{3}{8}$-$10\frac{5}{8}$	$5\frac{7}{8}$-$2\frac{3}{4}$	$20\frac{3}{4}$-$12\frac{5}{8}$	23-$11\frac{1}{4}$	$7\frac{1}{4}$-$4\frac{3}{4}$
Current market price of comm.	$6\frac{1}{4}$	$10\frac{1}{4}$	16	$3\frac{7}{8}$	$18\frac{1}{2}$	$21\frac{5}{8}$	$\frac{5}{8}$
Book Value per common share	$4.90	$18.92	$30.42	$5.50	$40.34	$41.35	$13.67
Net work cap per common share*	2.25	8.24	14.41	3.01	22.70	25.78	8.71

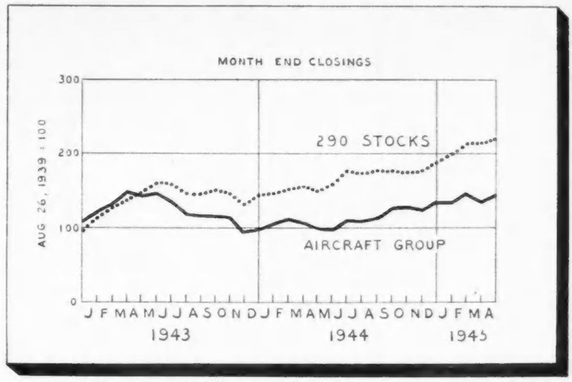
*After deducting prior obligations. (a)—Exclusive of $4.5 mill U. S. Treas. Notes. (b)—Exclusive of $15.8 mill U. S. Treas. Notes.

tion capacity. If so, and there is no reason to doubt it, this would leave the future of the aircraft industry pretty much in the hands of the Army and Navy air services.

Here is how Mr. Burden projected the industry's peace-time potentials. If the U. S., he opines, should decide to maintain a 20,000-plane air force after the war, compared to the 4,000 planes it had in 1940 and the 110,000 at present, annual sales of military airplanes would be twice the total commercial sales which can be hoped for even eight to ten years after the war's end. He added that in view of the rapidity of change in the industry, a Government policy of 20% annual replacement of military planes seems a likely possibility. Annual replacement demand thus would come to about 4,000 military planes.

As to commercial demand, Mr. Burden feels that postwar growth of the airlines will not require any vast number of transports, declaring that 600 to 800 aircraft of 40-60 passenger capacity and 300 smaller two-engined planes of 20-30 passenger capacity will be able to handle the traffic. Such a fleet would have six times the seating capacity of our 300-odd prewar 20-passenger twin-engined transport planes.

The most promising and yet the most uncertain factor in the outlook for commercial flying is private flying, according to the same source. If aircraft registration grows at the same rate as automobile registrations did in the period from 1900

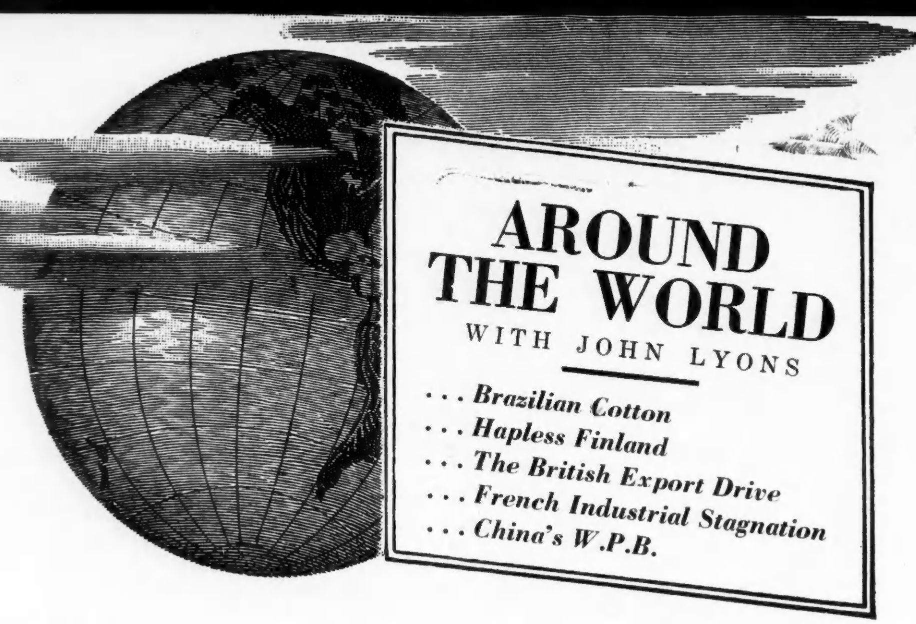


to 1910, we would have 400,000 airplanes in the hands of private owners in 1955 and sales in that year would amount to 175,000 aircraft. This would mean a $350 million commercial market, perhaps four times as large as the sales of transport aircraft are likely to be at that time.

Estimates sales within five years after the war were broken down by Mr Burden as follows: Military $1 billion; domestic transport $110 million; international transport $20 million; domestic private flying $100 million and exports $40 million. The export potential, incidentally, will be importantly governed by disposal policy of plane surpluses in foreign fields. (*Please turn to page* 214)

Statistical Positions of Aircraft Manufacturers

Douglas	Fairchild Eng. & Air.	Grumman	Lockheed	Glenn L. Martin	North Amer. Aviation	Republic Aviation	United Aircraft	Wright Aeronautical
1061.407	93.213	323.749	611.537	533.400	718.003	369.593	743.796	579.228
1020.250	83.471	271.783	575.070	460.797	630.483	351.187	685.327	547.984
34.585	6.184	29.112	18.409	53.959	46.089	16.112	66.620	29.354
26.900	5.011	24.168	13.887	49.050	37.700	13.300	51.058	25.755
7.685	1.173	4.944	4.522	4.909	8.389	2.812	14.268	3.599
$12.81	$1.13	$9.73	$4.20	$4.37	$2.44	$2.86	$5.37	$6.00
11/30/44	12/31/44	12/31/44	12/31/44	12/31/44	9/30/44	12/31/44	12/31/44	12/31/43
31.701	6.616	13.473(a)	27.440	72.224(b)	78.023	43.900	98.680	110.032
85.597	18.739	37.226	98.568	55.193	56.154	66.522	10.831	49.924
5.719	3.303	22.019	35.961	52.903	59.593	.227	64.372	159.592
123.017	28.658	75.340	161.969	199.001	193.770	110.649	182.675	327.892
73.344	22.755	65.805	138.186	181.306	162.036	102.774	88.675	298.523
49.673	5.903	9.535	23.783	17.695	31.734	7.875	94.000	29.369
1.6	1.2	1.1	1.1	1.1	1.2	1.07	2.0	1.1
6.985	1.520	5.479	5.764	8.750	6.713	3.327	4.190	7.667
16.540	3.849	9.979	15.778	24.500	14.451	3.942	32.475	11.792
5.108	1.938	1.854	29.777	11.117	4.368	1.424	40.002	27.109
3.806	1.668	.444	....	2.992	....	....	1.372	....
8.914	3.606	2.298	29.777	14.109	4.368	1.424	41.374	27.109
1.960	1.310	.999	13.927	5.009	2.730	.760	28.257	17.736
6.954	2.296	1.299	15.850	9.100	1.638	.664	13.117	9.373
....	....	....	....	....	....	....	....	....
....	....	....	....	....	....	....	258	....
600	1,042	508	1,075	1,124	3,435	982	2,656	599
43.2%	29.1%	20.4%	19.9%	39.8%	48.1%	42.6%	111.2%	36.8%
4.6	11.5	29.2	22.2	26.5	30.7	.2	35.1	48.6
11.5	56.0	231.7	151.1	298.8	187.9	2.9	68.4	542.8
4.6	6.3	2.9	3.8	3.3	4.4	2.1	12.6	5.0
1.6	4.6	3.6	2.7	5.3	2.1	1.1	4.7	2.1
82¾-47	4⅝-1⅝	38⅜-11	23¾-14⅝	27¼-16¼	11⅝-7⅝	9⅝-3¼	33¼-25⅝	99¼-69½
80	3	37⅜	22⅛	24⅜	10	8⅜	29½	90½
$112.40	$8.01	$40.52	$49.56	$48.73	$12.14	$12.20	$31.23	$79.94
82.79	4.12	18.77	22.12	15.74	9.23	8.02	25.14	48.94



AROUND THE WORLD

WITH JOHN LYONS

. . . Brazilian Cotton
. . . Hapless Finland
. . . The British Export Drive
. . . French Industrial Stagnation
. . . China's W.P.B.

BRAZIL, in re-appraising potentials for expanded foreign trade, has made an important proposal to the United States to control the production, pricing and export of raw cotton by mutual agreement. These two leading producers of the commodity have been engaged in a lively price war since last November, when the Commodity Credit Corporation subsidized cotton exports to the extent of 4 cents per pound, causing a corresponding decline in the price to foreign buyers. Brazil immediately responded by lowering her export price 1.70 cents below the new American level, and at present Brazilian cotton prices are quoted at 16.8 cents per pound, giving our chief competitor still quite an edge on our own offerings.

Because Brazil cannot profitably make further cuts and realizes that Washington could easily increase subsidies if necessary, she suggests steps to stabilize the entire situation on a permanent basis. The United States of course has an advantage in lower ocean freight rates and furthermore seems prepared to grant longer term credits to the distressed nations of Europe than the Brazilians can afford, yet broadly viewed, the idea of controlling competition between the two countries is likely to meet favor in Washington. Brazil feels that under proper control, cotton from both countries could be raised a bit in price to an identical level and held there, but not enough to stimulate increased competition from synthetic fibres, some of which are already only 5 cents above our domestic 20 cents a pound cotton. The longer staple cotton of Egypt and India undoubtedly would rise proportionately, as the premium they command is only natural.

Aspects of the Brazilian proposal bearing on export control, and limitation of plantings by the respective countries may experience less responsive feeling in Washington than mere control of export prices, as political debate runs high when such measures come under discussion. First comments of the Department of Justice on the proposals also raise doubts as to the advisability of Government embarkation upon a situation tinged with cartelism. Another important factor is that Brazil would have the U. S. Export-Import Bank finance the holdings of surplus cotton stocks of both nations, with commodity loans to be made along lines now followed by our Commodity Credit Corporation, only on an international basis and with interest at 3% for three years.

With exports limited by mutual agreement, any undisposable surplus would be purchased by each Government, and determination of export quotas would be based upon such factors as average production yields for the last three years, military demands of the United Nations and U.N.N.R.A. relief requirements. To prevent piling up of surpluses, acreage would be held to present levels, although if India and Egypt could be persuaded to join in the agreement their war-reduced acreage would be lifted to normal levels. Illustrating relative cotton production by Brazil and the United States in 1944, the former's crop was 2,200,000 bales compared with ours of 12,288,000 bales. In a large way, therefore, the problem is ours, as pointed out in a previous discussion of the cotton situation.

* * *

Finland's outlook for foreign trade is heavily clouded by the terms of her armistice with Russia. Of $300 million indemnity which she must pay, $175 million is to be represented by machinery and ships, with an additional $125 million in timber, paper, pre-fabricated houses, cable and other manufactured items. Furthermore, 1938 prices plus not over 15% will determine the value of all these articles, whereas costs in Finland have naturally risen sharply in the last seven years.

The impact of these indemnities will impose a severe strain on the Finnish economy, affecting both foreign and domestic trade. For example, to manufacture ships or machinery will entail the import of many raw materials as well as many parts and components, and to pay for these Finland must provide compensating exports as of course her indemnity shipments to Russia will produce no revenue. To carry the load will also require expansion of Finnish manufacturing facilities, in turn raising serious

problems in supplying the necessary capital.

Only two solutions of the difficulty appear possible; to cut down imports of coffee, liquors and textiles or to receive credits from abroad. The former course might inflame a large section of public opinion already emphatic in trying to blame the Government for all woes in the aftermath of war, but come what may the Finnish standard of living appears destined to decline, thus suggesting possibilities of political strife in vain attempts to avoid the inevitable. For this reason, foreign credits may be slow in responding to Finland's needs although her splendid financial record with the United States may win her support to carry her through the difficult times ahead.

Not impossible, but unlikely, would be a softening of the indemnity terms by Russia, but here again politics transcend economic considerations, as only wholehearted co-operation by the Finnish people could achieve such a goal. Russia and Finland plan mutual trade, however, and have just signed a treaty involving $17 million, whereby Russia will deliver cereals, salt and raw materials and Finland wood, paper and cellulose.

* * *

Britain's exports in 1944 indicate in their composition interesting trends which may alter her traditional methods of winning world markets, and increased export volume during last year points to a running start in her post-war program along somewhat new lines. War-stimulated advances in technology and science have produced many new items and more efficient methods of production for the British, a circumstance enhanced by the natural skill of the nation.

A readier foreign demand, and probably wider profit margins, has already characterized her efforts to export machinery, chemicals and synthetic textiles rather than staple items such as coal and cotton goods, the latter during the first four years of war progressively outstripping the more technical class of exports. While British exports in 1944 amounting to £258 Million were far short of the 1942 volume, they improved upon 1943 by about 100 million pounds, the latter gain being chiefly attributable to increases in the special categories mentioned. Largest export item in the British list was machinery, accounting for 41 million pounds, and an advance of 46% above 1943, although still 42% below prewar levels. Russia was the chief buyer of this item, but Egypt, India, Irak and Iran all figured in the gain.

That Britain was able to make these substantial shipments in the maelstrom of war production attests to her aptitude and efficiency in this class of manufacture. Electrical goods also gained importantly, with Indian takings mostly responsible for the improvement. Rayon yarns, chemicals of many kinds, and fabrics were outstanding among 1944 exports, even exceeding relative values for 1938, with large gains in shipments of rayon to Australia and South Africa, and of chemicals to the United States, India and Egypt. That Britain's technological advance in the production of synthetic fabrics is expected to benefit greatly her postwar export potentials is indicated by plans for tremendous expansion of facilities in this field, further enhanced by possible conversion of some of her cotton mills.

Exports of course more than ever will be the life line in Britain's postwar economy, in supplying her with funds for her immense import requirements. To this end, concentration of her manufacturing facilities will be importantly directed to production of items to attract foreign customers, even though domestic demand could absorb many of them. Just last week, 300,000 pounds of silk to make 200,000 dresses were released by the Government, but with the strict stipulation that they must be exported. Rolls Royce plans to resume manufacture of its luxury cars when conditions permit, but with an eye only on export potentials. The trend of Britain's export policies seems to veer toward increased promotion of items fashioned by her native skill.

* * *

Rebuilding of industry in France, even months after the exit of the Nazis, has hardly begun to stir due to handicaps which create a terrific problem. Inflation is rampant, transportation chaotic, and business activity at low ebb. If French industry can continue to operate for the rest of the current year at its present 25% of capacity it will be fortunate. The steel industry is almost prostrate with only about 10% of its capacity in active operation. Manufacturers of chinaware, textiles and other items are virtually idle, while coal mining is proceeding at a rate only one-third of normal.

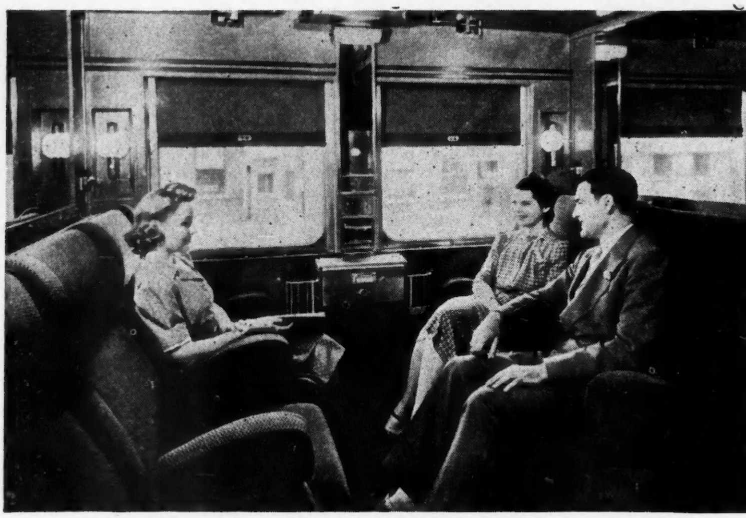
To pull business out of the mire, primary essentials are of course transport and fuel, and the former presents the chief bottleneck. France's prewar rolling stock of 400,000 freight cars has been reduced to about 160,000 in serviceable condition and of these more than a third have been allotted to the Allied Armies. Locomotives are in equally short supply, having been a favorite form of Nazi loot and a special target for Allied bombers. 700 locomotives now being made for the French in the United States cannot reach them for many months yet, and at that will fall far short of requirements. Where France in prewar days had over half a million trucks, she now has hardly 200,000 badly worn ones left, many of them without tires. 850,000 tons of shipping represent all that is left of her 2.9 million ton prewar fleet.

All in all, the economic situation in France is a desperate one, curiously appealing because she has substantial funds available with which to make foreign purchases if it were possible for them to be shipped and upon arrival at French ports to be distributed. But her docks have been largely destroyed and her internal transport is so lacking that she finds it difficult to move even perishable foods from the seaboard to interior points. With the industrial convulsion in Germany likely to spell broad expansion potentials for French manufacturers, France may some day arise from her trials as a great industrial nation, but the way will be long and hard.

* * *

Donald Nelson's mission to establish a Chinese WPB in that war-torn country has apparently resulted in an extraordinary pattern for the development of Chinese industry, although years must elapse and many hurdles leaped before this oriental economy can be revamped into a modern mechanism.

Measurable advance to assist the war effort has already justified the huge undertaking and General Chiang Kai-Shek is outdoing (*Please turn to page* 218)



One of Pullman's innovations designed to attract postwar travellers is this 3 tier sleeper. Above view shows it during day use . . .

. . . and here is the same space as it appears at night.

Investment Audit of . . .

Pullman, Incorporated

BY RICHARD COLSTON

PULLMAN is one of our industrial aristocrats. The company's history dates back to Civil War days when George Pullman built the first sleeping car and founded Pullman's Palace Car Company in 1867. The present company, Pullman Incorporated, is a holding concern incorporated in Delaware in 1927 to acquire control of the Pullman Company and the Pullman Car & Manufacturing Corporation. The former operates the original sleeping car business and the latter (later merged with Standard Steel Car Corp. and other subsidiaries to become Pullman-Standard Car Manufacturing Co.) manufactures railway equipment.

Throughout the years the company has lost none of its "lustre." Its directorate today includes such well-known names as Sewell Avery of Montgomery Ward fame, Alfred P. Sloan of General Motors, Harold S. Vanderbilt, R. K. Mellon and George Whitney of J. P. Morgan Co. Dividends have been paid uninterruptedly by the original company and its successors, a hallmark of financial strength in good times and bad. Reflecting the latter, the company today stands with no funded debt and cash equal to about 30% of total assets, an exceptional showing.

The Pullman Company at present owns some 8,336 cars including 1,238 troop cars operated for the Army Transportation Corps, about 4,000 sleeping cars of standard heavy weight, 600 new type light-weight cars, 481 tourist cars and 300 parlor, private and other cars. Through operating agreements with the railroads, the company does nearly all the sleeping car business in North America, including Canada and Mexico. Pullman last year hauled over 28,000,000 revenue passengers compared with 8,000,000 in 1940. The average revenue per car operated was $19,588 compared with $12,053 in 1940; and the net earnings from sleeping car operation was $8,822,000 — nearly four times the 1940 figure and over five times that for 1941. This was brought about by loading cars to capacity — carrying 21 passengers per car as compared with 10 in 1940, and also hauling the cars 485 miles a day instead of 449. Thus, the average net earnings per car per day jumped from $1.23 in 1940 and $.90 in 1941 to $3.23 last year. Of the 28,000,000,000 revenue passenger miles in 1944 (nearly double the previous peak in 1926) about 12,000,000,000 represented troop traffic and 16,000,000,000 civilian.

The manufacturing end of the business was largely turned over to armament production in 1942, war production reaching a peak in the third quarter of 1943, dropping sharply during the next twelve months and recovering substantially in the fourth quarter of 1944. Sales of rail equipment dropped from $30,000,000 in the second quarter of 1942 to nothing in the next quarter, but recovered to $10,000,000 a year later and have since continued around that level. In the final quarter of 1944 armament business amounted to about $54,000,000, regular production about $10,000,000.

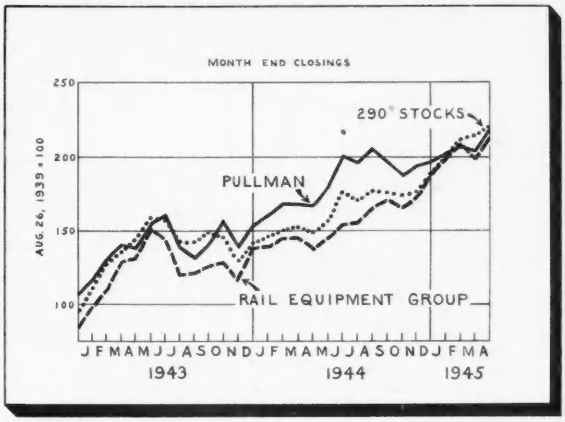
The carrier division has for some years been more profitable than the manufacturing division. In 1944 the operating ratio for sleeping cars was 74%, while the manufacturing business showed a ratio of 89%. Income taxes were ten times as large as in 1937; thus while sales were about 2¼ times as large in 1944 as in 1937, net income was only slightly higher. Share earnings last year of $3.99 were, however, the best since 1930, as the

number of shares have been reduced in recent years by 15%.

Though Pullman was quite generous in its dividend payments in the early 1930s when the $3 rate was continued during a period of deficits, cash assets increased from $42,000,000 in 1936 to $120,000,000 at the end of 1943. This was despite use of $15,000,000 in 1941 for reacquisition of 517,298 shares of stock, obtained by tenders. Also, in 1944 $18,250,000 cash was used to acquire the M. W. Kellogg Company, an established petroleum and chemical engineering concern. The latter company had grown from a modest beginning in 1905 to a well rounded engineering organization with a vast accumulation of valuable engineering data and experience of operating conditions in every part of the world. The company has supervised construction of wartime oil refining plants amounting to about a billion dollars, all based on its pilot plants and laboratory at Jersey City. It has evolved many improvements in the construction and operation of fluid catalylic cracking operations. The company has also been active in metallurgical research, developing valuable new methods of coating carbon steel with stainless steel.

The Kellogg company built the famous Lake Charles refinery for Cities Service, the huge plant being built rapidly "from scratch" in a Louisiana forest clearing. It was the first fully-integrated refinery built in the U. S. in 20 years. In the post-war period the company expects to enter on a period of world-wide rehabilitation and expansion of the refining industry. No earnings figures are available for Kellogg but the company's financial position in 1943 was strong, with net current assets (in excess of all debts) amounting to over $10,000,000.

It was announced in January 1945 that Kellogg has developed a new method of producing 75-octane motor fuel from natural gas at a cost of about 5c a gallon, based on natural gas at 5c a thousand cubic feet and a plant depreciation charge of 10% per annum. The gasoline could be leaded to increase its octane rating. The company said it was prepared to build plants to use the new process. This new development, if correctly reported, would seem to have interesting possibilities.



It appears likely that Pullman may acquire other industrial properties with a portion of its huge cash backlog, thus further diversifying its activities.

In 1940 the Federal Department of Justice brought suit against the Pullman group under the Sherman Anti-Trust Law on the ground that the operation of its sleeping car business since 1900 had been developed through "exclusive" contracts with railroads. The U. S. District Court at Philadelphia upheld the Government in April, 1943 and the company was ordered to dispose of one of its two main divisions. In October 1944 Pullman elected to dispose of the sleeping car business, offering to sell it to the railroads. Due to the war emergency, however, segregation was held in abeyance.

Under the company's plan for disposing of the sleeping service, it proposed to offer the properties for sale at $81,325,222 (to be sold as a unit to a proposed new company, Railway-Pullman Sleeping Car Co.). The selling price was determined on the basis of cost less depreciation. About half of the property was to be sold initially, including the heavyweight sleeping cars, tourist cars, etc., together with shops, laundries, inventories, etc. A price of $39,156,671 was set on 609 lightweight cars which were "contingently excluded from initial purchase transaction on account of uncertainty as to prior purchase by individual railroads." The total amount involved, $81,325,222, was equivalent to about $25 a share on the common stock. It was suggested that the new company need only advance one-quarter of the total amount in cash, the remainder being borrowed against equipment trust certificates or on loan from the Pullman Co. itself.

In February of this year the Department of Justice indicated that it was dissatisfied with the Pullman plan of separation. The railroads last year formed regional committees to consider taking over sleeping car service but, though no official reports

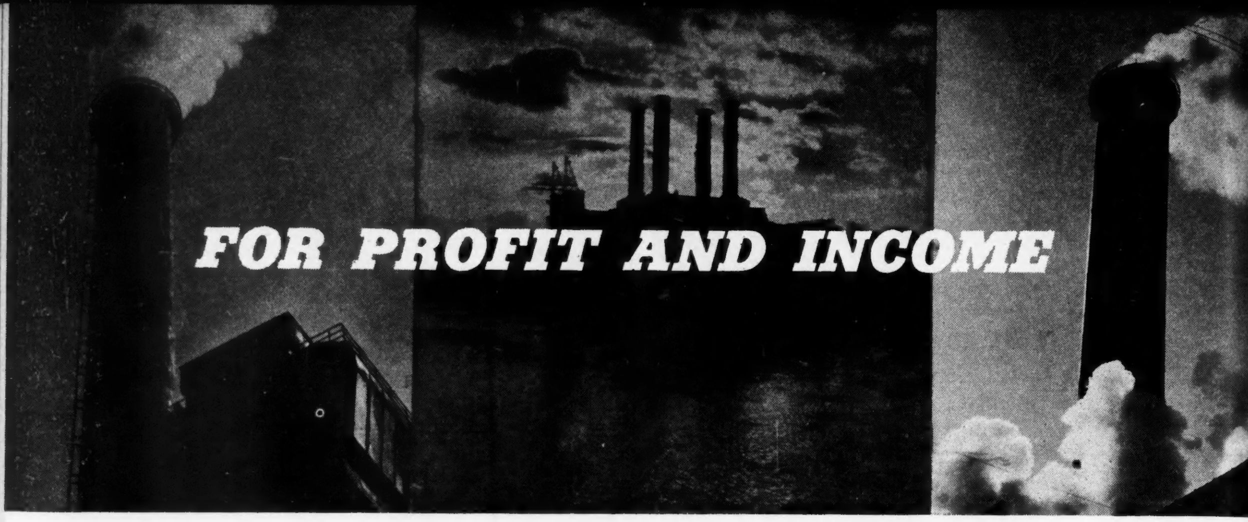
(*Please turn to page* 212)

*Pertinent Statistical Data***

	1939	1940	1941	1942	1943	1944#
Oper. Rev.—Carrier bus.	60.664	60.143	67.000	99.722	151.847	165.692
Sales—Mfg. business	29.692	63.097	105.428	189.716	262.922	185.347
Total Sales & Oper. Rev.	90.356	123.240	172.468	289.438	414.769	351.039
Oper. Income—Carrier bus.	2.630	2.971	2.624	19.522	34.968	37.766
Oper. Income—Mfg. business	.418	6.517	13.218	19.694	19.022	20.271
Total Oper. Income	3.048	9.488	15.842	39.216	53.990	58.037
Balance for common	4.009	7.484	10.918	9.479	8.176	12.890
% earned on invested capital*	2.4%	5.0%	8.7%	21.2%	23.2%	25.1%
Earned on common, per share	$1.05	$1.96	$3.31	$2.87	$2.52	$3.99
Earned on common, % of market price	2.0%	3.7%	6.3%	5.5%	4.8%	7.6%
Dividend Rate	$1.00	$1.50	$2.50	$3.00	$3.00	$3.00
Dividend Yield	1.9%	2.8%	4.8%	5.7%	5.7%	5.7%
Current Asset val., per share	$22.43	$24.35	$31.93	$43.49	$66.09	$54.43
Book value, per share	52.55	52.46	56.75	58.46	59.23	61.14
Net current asset val. per sh.	18.49	19.86	22.87	26.20	29.93	29.98
Cash asset value, per share	13.33	13.60	9.76	21.16	37.15	28.22
Current Ratio	5.7	5.4	3.5	2.5	1.8	2.2

*Before provision for taxes and special reserves. #Subject to renegotiation

** $ millions, except where otherwise indicated.



FOR PROFIT AND INCOME

Cloudy and Cooler

Now the market is looking reconversion in the face, and doing so with mixed emotions. More caution all around is the rule. Many who thought the visibility very good only a few weeks ago now say the outlook is "cloudy." That's a good thing. Major declines don't start when the prevailing sentiment is as cautious as it is at present. Probably the most dubious thing about this market at present is not the level of the averages but the levels of individual stocks. Never before has a bull market evaluated an anticipated condition — in this instance, "post-war prosperity" — so far ahead. Very likely many of the appraisals built up for individual stocks will prove wrong: some too high, perhaps some not high enough. This department has a notion that for some time to come selection will have more to do with one's profits and losses than the trend of the averages.

Imagination

Suppose we agree that the motor industry may make 6,000,000 passenger cars a year for several years after full reconversion, which would be some 50 per cent more than in the best pre-war years. Suppose we agree that the secondary companies will have about the same relative volume gain as the leaders. Suppose we agree that, because of big volume, operating profit margins will be substantially higher than before the war. Finally, suppose we agree that income taxes will be no higher than 40 per cent. Well, then, on this basis, are the speculative automotive stocks cheap? This department thinks not. You would have to stretch the imagination still further to "project" potential earnings of $3 for Studebaker, or over $2 for Nash-Kelvinator, or as much as 75 cents for Packard — and the rest in proportion. In fact, the more realistically you study the reasonable probabilities, the cheaper General Motors and Chrysler look.

Good Value

If the post-war economy is to be highlighted by 6,000,000 autos a year and 1,000,000 new homes a year, that implies a general business condition under which few industries could languish. Our point is that if speculative hopes for automobile and building stocks have a solid basis, then various other industries will do well also; and in them can be found at least some stocks which look really undervalued. Quite a few such can be found among retail trade issues, especially those priced at only 10 to 12 times share earnings of years like 1936 and 1937. We are talking comparative values.

For Instance

Marshall Field had sales of $148 million last year, an operating margin of 14.9 per cent., paid income and EPT taxes equalling over 78 per cent of pre-tax earnings and came out with net of $1.60 a share. It earned about 54 per cent more than that, or $2.47 a share, in 1940 when sales were only $90 million and profit margin only 11.5 per cent. Now let's do a little figuring. Say post-war sales are $125 million. That looks conservative, for it would only be the equivalent of 1936 volume, plus the subsequent price rise. Say the operating margin is 12 per cent. (It has been higher than that on sales less than our projection of $125 million.) Then apply a 40 per cent tax rate, and you get earnings just above $4 a share. The stock is priced at 24 or only about six times that earnings potential. Financial position is strong. Let us emphasize that this presentation is not a forecast. The point made is that if you are betting on post-war prosperity, it is possible to find stocks priced much more reasonably in relation thereto than are speculative automobile and building stocks, or radio stocks or other favorites of bullish "crowd sentiment." Marshall Field is such a stock.

Earnings and Dividends

Enough first quarter earnings reports are in hand to provide a reasonably accurate sampling. Profits of industrial companies were apparently about 6 per cent larger than for the first quarter of 1944. They can hardly show any gain in the second quarter, and may show a slight decline. Certainly the trend will be downward for the second half of the year, though tax-cushioned. Cash dividends paid during the first quarter on common stocks listed on the New York Stock Exchange were 6 per cent greater than a year ago. Due to relaxation in working capital needs over the months ahead, and the strong financial condition of most companies, total dividends for the year can be expected to be moderately on the up side. Thus, dividends and earnings are likely to follow contrary trends during the

second half-year. That is unusual, but not strange under the circumstances.

Qualification

In the preceding item we talked of over-all tendencies. There will be exceptions. The reconversion period will in due course bring at least some temporary dividend reductions or omissions in at least a few industries. Prominent among them are the automobile, steel and aircraft industries. This ought not to be any surprise — yet dividend cuts always seem to surprise some people. The recent decline in United Aircraft, following a shaved dividend, is a case in point.

Too Good

Other things being anywhere near equal, this department is inclined to favor stocks of companies which are not making record high profits now, and is no little bit skeptical of the longer-term potentials of companies which are in war-time clover previously unknown to them. Take Gimbel Brothers, for instance. The $3.07 a share earned for the year ended January 31 was nearly 50 per cent higher than in any pre-war year. The operating margin of about 13.2 per cent was nearly twice as high as the best pre-war margin. It looks just too good to last.

New Low

A new low in war-time tax rates — or a new high in quite legal tax shelter, whichever way you want to look at it — turns up in the 1944 report of the Continental Oil Company. For last year it paid Federal income taxes of only some $420,000 and had a net profit of about $12,020,000. Thus, income tax (there was no EPT) was less than 4 per cent of pre-tax earnings. Contrast that, if you will, with the 78 per cent rate previously cited for Marshall Field. To put it mildly, Continental Oil, though a very good company, has an extremely thin tax cushion — so thin as to be virtually non-existent—while Marshall Field has a very thick one. For relatively few industrials is the effective rate less than 60 per cent; for many it is over 70 per cent.

Sugar

Sugar is going to be tighter for some months to come, making the summer outlook not so sweet for the makers of soft drinks and other industrial users of this commodity. There is always something the matter with the sugar business. If the producers and refiners prosper in war-time, the thing is that the war will end. American Sugar, the best company in the industry, had the best year in 1944 in a long, long time, but will not do as well this year. The stock has been acting toppy for some weeks.

STOCKS RECENTLY SHOWING ABOVE-AVERAGE STRENGTH

Am. Bank Note	Manh. Shirt
Borden	Marshall Field
Budd Mfg.	Martin-Parry
Cleve. G. Bronze	Nat. Airlines
Corn Products	Nat. Dairy
Coll. & Aikman	Neisner Bros.
East. Air Lines	Norfolk & West.
Firestone	Penney, J. C.
Grant	Reliable Stores
Hecht Co.	Spicer Mfg.
Hudson Motor	Underwood
Int. Dept. Stores	Westing. Elec.

Ex-Cell-O

When you see an earnings report that shows $5.83 a share earned in 1944, against $5.84 in 1943, followed by a first quarter net of $1.20 against $1.22 for the comparable prior period, that sounds very much like a snuff company in peacetime. Wrong. It's Ex-Cell-O (machine tools), in wartime. This stock has been one of the sensations of this bull market; and we are not inclined to argue with the market on the matter. While nobody can "forecast" the company's post-war earning power, the possibilities certainly are "intriguing." They center in a uniquely efficient machine for packaging dairy products. This equipment will be leased, not sold. It takes no wild stretch of the imagination to imagine steady revenues substantially exceeding any past peacetime share earnings.

Retail Trade Slump?

April sales figures of most retail concerns showed a sharp drop from a year ago, leading some investors to wonder. Don't get excited. This was because Easter trade fell in March this year, in April last year. Trade is still very good — but probably at its wartime peak or thereabouts. Any decline later this year is likely to be on the moderate side, rather than severe. And the majority of merchandising companies are nicely tax-cushioned.

A Conservative Issue

For those interested in a secure and relatively good dividend yield, combined with reasonable prospect of higher future distributions, the common stock of Philadelphia Electric is worth looking into. The territory served is well diversified industrially, and prospects for longer-term growth of residential load are favorable. It is out of reach of Federal hydro-power competition. The company, controlled by United Gas Improvement prior to divorcement in 1942 under the Utility Holding Company Act, has a good long-term operating record, with unusually good control of operating costs. With peacetime earnings over $2 a share, it paid steady dividends of $1.80 a share for ten years 1931-1940. The rate now is $1.20 and is amply covered. At around 25 for the stock, it yields about 4.8 per cent. Tax relief very likely will eventually permit an increased rate.

Office Equipment

On a number of lines, including typewriters, the office equipment industry has been given a green light by the War Production Board, subject of course to prior demands of the armed forces. There will be no flood of early production for civilians; but the changeover will not take as long as many observers had predicted. By the end of this year, output for civilians should be substantial. Now earning considerably less than in many pre-war years, Underwood Corporation — formerly named Underwood-Elliott-Fisher — is one of the most reasonably priced issues in the group, combining longer-term speculative promise with rather high investment quality.

Advertising Business

Companies that make their profits out of advertising have no reconversion problem, and ought to do well throughout the reconversion period. One such is Columbia Broadcasting. Growth record has been excellent and it is quite possible that gross revenue has not yet made its peak. Even if it has, the elimination or reduction of the excess profits tax will save Columbia more than it can conceivably lose from lower volume.

Opportunities for Income and Appreciation In Bonds and Preferred Stocks

BY JACKSON D. NORWOOD

MARKET TRENDS: The bond market has displayed both stability and strength in the past two weeks. Although the Dow-Jones averages for forty bonds made a new high of 107.36, it closed at 107.20 vs 107.19 on April 28. Second grade railroad averages closed at 97.70, up .39 while defaulted railroad averages made the most striking gain, closing at 56.30 vs 54.17 on April 28, up 2.13.

Tax-exempt municipal bonds worked somewhat lower in quiet dealings. The Dow-Jones yield index of twenty representative state and city issues expanded to 1.52% from 1.50% at the end of the preceding week.

In the foreign field, Brazilian bonds continued to hold to the upward trend that has persisted almost without interruption since the new debt adjustment program went into effect early in 1944. City of Antwerp 5s of 1958 crossed 100 for the first time since 1938.

AMERICAN ROLLING MILL CO. $4.50 CUMULATIVE CONVERTIBLE PREFERRED STOCK: This company is expected to be one of the leading suppliers after the war of special purpose steel to the automobile, refrigerator, electrical equipment and other industries. It is outstanding among the nation's major steel producers for its long record of pioneering achievements, particularly in the field of flat-rolled steel.

The latest available consolidated balance sheet dated December 31, 1944, showed a strong financial position. Total current assets amounted to 90,523,080 as compared with total current liabilities of $26,235,866, a current ratio of better than three to one. Net current assets, after deducting funded debt of $14,750,000 amounted to $49,538,000 or equivalent to $110 on each share of preferred stock outstanding. These figures exclude other investments of $12,136,391, equal to $27 per share of preferred stock. Total assets amounted to $189,781,317 and earned surplus $18,378,544. Cash, U. S. Governments and other securities totaled over $32,241,000 and, alone, exceeded total current liabilities by $6,000,000.

Earnings on the preferred stock in 1944 were $11.26 per share or 2.5 times dividend requirements. The average in the last five years was $16.80 per share or 3.7 times dividend requirements. In the first quarter of 1945 the company showed a nice increase in earnings, net income amounting to $1,875,502 as compared with $1,229,035 in the first quarter of 1944. The earnings in the first quarter of this year on the preferred stock amounted to $4.16 per share and net income was 52% above the corresponding quarter of 1944.

The preferred stock is redeemable at 105 until July 15, 1947, and at decreasing prices thereafter; it is convertible into common stock at $47.50 until July 15, 1945 and at $50 through July 15, 1947.

The company owns the majority of the stock of Rustless Iron & Steel Co.

The price range of this stock in 1945 to date has been: High 91½; Low 75; Last 85½, giving an indicated income yield of 5.26%. The postwar prospects for this company appear good and reasonably assured dividends on the preferred stock make it attractive at current market price for income and appreciation. This stock is listed on the New York Stock Exchange and traded in multiples of 10 share lots.

HUDSON & MANHATTAN R. R. CO.: Thus far this year the company has reacquired $826,000 of its bonds and it is its policy to continue to purchase them on any weakness in the bond market. Last year the company, in its program of using a portion of its property amortization or depreciation fund, reacquired and retired $458,000 par value of first lien and refunding mortgage and $1,158,000 of adjustment income bonds, making an aggregate reduction in funded debt, including interest arrearages, of $1,867,865. In the past nine years, funded debt in the hands of the public has been reduced by $15,000,000 exclusive of interest arrearages.

DICTAPHONE CORP.: This company has called for redemption on June 1, 1945 all of the outstanding shares of its preferred stock at $120 per share plus accrued dividends. As the quarterly dividend payable on June 1 has been declared and will be mailed on May 31 to all holders of the preferred stock of record at the close of business on May 29, 1945, the redemption price will be $120 per share flat. Pursuant to authorization of the Board of Directors, the holders of the present preferred stock called for redemption are offered the privilege of electing to exchange their shares for shares of the new 4% preferred stock of the corporation on a basis of 1.2 shares of new 4% preferred stock for each share of the preferred stock called for redemption, up to the close of business on May 31, 1945. Any fractional share of 4% preferred stock resulting from such exchange will be paid by the corporation in cash at the rate of $100 per share.

COPPERWELD STEEL CO.: It has sold $1,500,000 of 3% debentures due March 1, 1955 to the Equitable Life Assurance Society and the proceeds from the sale of these debentures, together with treasury cash, were used to retire the company's 4% first mortgage bonds which were outstanding in the amount of $2,205,000. Incidentally, the company has also reduced by $450,000 its bank borrowings under a "V" loan arrangement.

Keeping Abreast of Industrial and Company Changes

Henry J. Kaiser favors house building by mass production methods as a means of providing jobs for several million workers in the postwar period, and is translating his ideas into action.

KAISER COMMUNITY HOMES, a $5 million newcomer, will buy the land, supply multi-design houses using up-to-date gadgets, fences and even shrubs, the entire home to be sold for $200 down and $30 a month.

Postwar expansion plans of WESTERN AUTO SUPPLY COMPANY include doubling its present number of company-owned retail stores, tripling its dealer retail outlets, enlarging its present stores and adding four new warehouses.

Cuba seems to be going in heavily for tennis and U. S. RUBBER CO. hopes to provide the shoes. To this end the company is building a $1 million Cuban plant to produce them on the spot. Threatened competition for Keds by Lithuanian refugee manufacturers spurred U. S. Rubber into prompt action.

To keep Cuban trucks rolling, another American concern, GOODRICH RUBBER CO., is already operating a Cuban plant which turns out 3000 tires per month to meet minimum requirements in that country.

BALDWIN LOCOMOTIVE WORKS now makes a tiny testing gauge, the SR4, the materials for which cost about two cents, the completed item selling for only fifty cents. Yet its efficiency permits measurement of stresses and vibrations down to a millionth of an inch.

ALUMINUM ORE CO., an Alcoa subsidiary, comes out with a new process to recover fine aluminum from alloy scrap, now a drug on the market. A caustic soda bath dissolves the aluminum but not the other metals in the alloy. Discarded aircraft thus achieve unsuspected value.

CLAYTON AND LAMBERT MFG. CO. has acquired Lamneck Products Co. of Middletown, Ohio, makers of pre-fabricated steel silos and other farm structures.

RADIO CORPORATION OF AMERICA now views its factor of liquidity with satisfaction, having cleared up the last of its $75 million V-loan credit with 35 banks. The company is now free of loans or long term debt.

The management of E. G. BUDD MFG. CO. is optimistic over postwar sales potentials, confidently predicting that volume of $100 millions will be realized as against prewar sales of about $40 million.

Successful experience in decentralization has enthused SYLVANIA ELECTRIC PRODUCTS INC., as a result of war activities. When peace arrives, they plan to place small manufacturing units in scores of minor communities.

Stockholders of KEN RAD TUBE AND LAMP CORP. have voted to sell their incandescent lamp plant to the Westinghouse Electric Co., and to dissolve the corporation upon completion of the transfer. The tube division was sold a few months ago.

Big department stores are casting envious glances on suburban business. LORD AND TAYLOR will soon open a branch in New Rochelle, the first of twelve it plans to establish outside of New York City limits.

Latest wrinkle in frozen foods to appear is provided by FRIGID DOUGH PRODUCTS CO. This Chicago concern is experiencing a landslide of orders for pies,

clover leaf rolls, blueberry muffins and cake. Frigid freezes the dough and the housewife does the baking.

A proposed split-up of common stock on a two for one basis and new financing of $12.5 million will be voted on at the annual meeting of STERLING DRUG CO. to be held June 14. 125,000 shares of preferred stock underwritten by a banking group will provide funds to retire $9.5 million bank loans and to pay for contemplated expansion of facilities.

Declining war demand has forced the closing of the Gary Armor Plate Mill, built and operated by CARNEGIE-ILLINOIS STEEL CORP. for the Government. This $60 million plant has been producing special equipment for tanks.

The powder metallurgy field has been entered by MAGUIRE INDUSTRIES, INC., through purchase of the Ferrocart Corp. of America and the Micro Products Corp., both of Hastings-on-Hudson, N. Y.

SHELL OIL CO. thinks it now possible to produce synthetic rubber superior to the natural product through a new adaptation of its plasticizer, Dutrex, and GENERAL TIRE & RUBBER CO. has started careful road tests to prove the contention, using both passenger and truck tires for the purpose.

As 9 million pounds of MAGNESIUM can be produced from every cubic mile of seawater and the ocean is large, the Magnesium Association feels that the metal has unlimited possibilities to produce everything from typewriters to wheelbarrows -- baby carriages to step ladders.

Still another concern may join the DRESSER INDUSTRIES, INC. family group, this time the Western Pipe and Steel Co. of California, with assets of over $27 million, if negotiations are successful. Pipes, tanks and oil well equipment are its specialty.

Civilian demand is more than offsetting decline in military production with INTERNATIONAL HARVESTER CO. During the last six months the latter class shrunk by about $4 million but total sales rose by $30 million.

WOOD promises increased postwar competition with metals as science has developed 200 war uses for it. Even humble sawdust now produces glycerine, acids, animal food and 200-prof alcohol, and 350,000 feet of wood is used in building a great battleship.

Reconversion of the STEEL INDUSTRY will be expensive, says the American Iron and Steel Institute, as fully $200 million will be required to change huge rolling equipment making armor plate and to switch the machinery of steel fabricators.

Bright potentials in the field of hotel equipment have led the AMERICAN MACHINE & FOUNDRY CO. to acquire control of Lowerator Manufacturing Co., a specialist in producing items of this kind.

Undismayed by approaching slack in naval building, ELECTRIC BOAT CO. plans postwar expansion of its Connecticut and New Jersey plants to handle prospective repair and maintenance business.

March SHIPMENTS OF MANUFACTURERS established a new high record for any one month, reaching a total of $14.2 billion, with the upswing attributable chiefly to producers of non-durables such as food, chemicals and petroleum.

PHILCO CORPORATION distributors have had great success with radio supermarkets where the dealers help themselves to parts from the shelves. After a year's test it was found that sales increased 25% while overhead declined by 20%. Normally, over 8000 different parts are handled for the dealers.

SHARON STEEL CORPORATION has acquired the Detroit Seamless Tube Co., to be operated as a subsidiary under the direction of its present executives.

A new storage battery plant, to be built when conditions permit, will be established by Delco-Remy division of GENERAL MOTORS CORP. at New Brunswick, N. J., where the company has purchased 27 acres of land.

Purchase of a 17% interest in PACIFIC MILLS, Massachusetts textile makers for 95 years, by Ely Walker Dry Goods Co., St. Louis, has been announced.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities;* one request per month.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Pantepec Oil Co. of Venezuela

Kindly furnish me with information on Pantepec Oil of Venezuela.

I am considering buying some of this stock and would appreciate your advice. It seems to me that this stock has future possibilities.

—E. G. R., Chicago, Ill.

Company was incorporated in Venezuela January 24, 1924, as Venezuelan Pantepec Co., C. A., present title adopted in 1938. This company is engaged in the production of crude oil from concessions in Venezuela. Properties are held under exploitation concessions in the states of Monagas, Anzoategui, and Guarico.

In February 1943, company entered into an agreement with Standard Oil Co. of Venezuela, subsequently absorbed by Creole Petroleum Corp., parent company, under which non-producing properties, formerly held jointly under an agreement dated March 14, 1934, were to be divided equally, and the Creole interests were to operate producing properties for joint account on a fifty-fifty basis.

Recent annual earnings were as follows:

1940	1941	1942	1943	1944
0.02	0.09	0.10	0.001	0.60 estimated

Prospects for 1945 are favorable and improved earnings indicate a possibility of inaugurating dividends soon.

As oil reserves are large, this stock has speculative attraction.

Post-War Hedge?

My broker suggests the purchase of Peck Stow & Wilcox common stock and submits certain data that would tend to indicate the company might be one of those most likely to succeed in the postwar era. Particularly interesting in the company's record immediately after the last war, which makes me feel history might repeat itself. Would you please let me have any comments you may care to make?

W. H. P.—Orange, Conn.

Peck Stow & Wilcox is a very old company the business having started in 1785 and incorporated in Connecticut in 1870. Plant is located at Southington, Connecticut in a community where labor conditions are reported as excellent. Production is concentrated in machines and tools for sheet metal work, also tools for mechanics and for household use.

The dividend record is interesting in that dividends were paid every year from 1907 to date except for the early thirties, there having been no payments from 1930 through 1936. In common with many "Over the Counter" issues, we find less information available than we ought to have.

Recent annual earnings were:
It would seem however, that profit margins since 1929 leave something to be desired.

1938	1939	1940	1941	1942	1943	1944
0.07	0.22	1.10	1.58	2.23	1.74	2.04

This speculative issue has pos-
of about $9 per share, however,
its marketability is limited.
sibilities, around the current price

of about $9 per share, however, its marketability is limited.

Armour & Co.

Will you please tell me what is in the future if any for Armour & Co. common stock listed on the big board?

The action is very much weakened somewhat lately. Why hasn't this issue done much?

Hoping I may hear from you, I remain.

—O. S., Geneva, Ohio

This company reported record sales for the fiscal year ended October 28, 1944, the total amounted to $1,477,970,945 but an increase in taxes from $23,000,000 to $31,000,000 held net income to $11,250,348, equivalent to $1.92 a common share after allowing for preferred dividend requirements. This compares with a 1943 net of $11,455,499 or $1.97 a share. Income from operations of foreign subsidiaries fell to $2,282,096 for the fiscal period from $4,555,573 in the preceding year. This was the result of drought in Uruguay and Central Brazil, restrictions on profits in Argentina and the embargo on Brazilian cattle shipments.

The financial status of Armour & Co. has improved considerably in recent years with an increase in working capital and earned surplus. Funded debt was reduced $12,582,200 at the end of 1944. Further improvement in company's financial structure was made early in 1945 when the 7% income debentures were exchanged for 4½% income debentures. This will save the company approximately $900,000 in interest annually.

The President of Armour recently told shareholders that resumption of dividends on common stock will not be made while there are unpaid dividends on preferred. Accumulations on $6 cumulative convertible preferred amounted to $28.50 per share on May 2, 1945 and on 7% cumulative preferred $50.75 on April 1, 1945.

The company's President also said that output of packing houses for the 1945 fiscal year will probably decline 15% as a

result of the Government's campaign, launched in mid-1944 against over-production of livestock. This indicates moderately lower earning prospects for this year. This accounts for the recent lack of improvement marketwise in the stock. Postwar outlook is obscure, therefore this stock is highly speculative.

Phelps Dodge

I paid 47 in the depression year of 1938 for Phelps Dodge; it is selling much lower now. Do you think there is any chance of my getting my cost price back in this stock?

J. N., Lansing, Mich.

Before 1930, company's business was practically confined to the mining of copper but since that time it has added refining and fabricating facilities so that currently the company is an integrated unit engaged in copper mining, milling, smelting and refining, fabricating and selling, etc.

Over half the company's copper production is marketed in fabricated form, the products including copper and alloy rods, wire and tubes, pipes and copper wire, insulated wire and cables, etc.

Company reported earnings of $2.49 per share for 1944 compared to $2.78 in 1943. This is after taxes and reserves but before depletion. However, provisions for taxes and renegotiation amounted to $19,000,000 in 1944 vs. $17,800,000 in 1943. Financial condition continued to improve, cash, U. S. Governments and other securities on December 31, 1944, amounting to $56,369,772 vs. $44,193,251, on December 31, 1943. Funded debt was reduced to $9,529,100 vs. $11,470,800 at the end of 1943.

The gain in cash and equivalent of over $12,000,000, would more than liquidate current funded debt. In the last five years earnings have been very stable, varying only from low of $2,29 to a high of $2.80. With the exception of the depression year of 1932 and 1933, dividends have been paid continuously since 1917 or for twenty-eight years. In the last three years, $1.60 was paid annually. The price range for 1944-1945 to date, has been high $29\frac{3}{8}$; low $20\frac{1}{2}$; recent $27\frac{3}{8}$.

It is interesting to note that in former years this stock sold at a higher level. For instance, the high in 1938 and 1939 was $47\frac{1}{2}$, in 1940 it sold as high as $40\frac{1}{2}$, in 1941 $35\frac{7}{8}$ and in 1942 the high was $32\frac{3}{4}$. Book value of common was $32.59 on December 31, 1943.

In view of the company's stable earnings, fine dividend record and strong financial position, the common stock selling at $27\frac{3}{8}$ gives a liberal income yield of 5.84% and is attractive.

As this stock sold much higher in the depression year of 1938, again reach this level in continu- there is a good chance it will ing good markets as the long term prospects for this company are favorable.

Sell Stock Now and Buy Government Bonds?

Enclosed find check for Fifteen Dollars. I am subscribing to this magazine, having been a reader for the past twenty years, but I have never played the stock market. I own four different lots of common stock and am apprehensive of what the stock market will be afte rthe war in Germany. I am past seventy-three years of age and had to resign my position due to sickness, and I am wondering if I should turn this stock into money and put same into Government Bonds.

The following is the list of stock I have:

31 shares of Crucible Steel I bought at $31.00 per share.
100 shares of Erie R.R. I bought at $13.00 per share.
50 shares of Glidden Co. I bought at $17.50 per share.
100 shares of Skelly Oil I bought at $2.50 per share.

What would be your advice in regards to cash in all or part of the above mentioned stock, as I do not want to lose it at the price it is as I am relying on this for future living.

If you will kindly give me some advice on this I would appreciate it very much.

A. B., Phoenix, Ariz.

We have given careful consideration to securities you own in relation to your age, objectives, etc. and our conclusions are that although Crucible Steel, Erie and Skelly Oil do not appear overpriced in relation to current earnings and immediate prospects, your situation requires safety of principal above other considerations. We therefore recommend accepting profits in these issues and placing the proceeds in government bonds.

Your holdings of Glidden Co. may be retained as the postwar prospects for this company are bright, as the deferred demand for paint is great and the company has developed important new products. Earnings in 1944 amounted to $2.50 per share, despite a charge of $1.45 for contingencies, compared with $1.08 per share in 1943.

The Federal capital gains tax on securities held over six months is 25%.

Daughters Investment Fund

Some weeks ago I renewed my subscription of the Magazine, but did not avail myself then of the privilege of asking for investment information. I would like to do so now.

Our daughter is coming of age in a month and will then come into possession of some $2,000. This money had been invested in a ground rent in the Rockefeller Bldg. until a year ago when the obligation was redeemed.

We do not wish our daughter exposed to risks of the Market nor to make her Market-conscious at her age.

What investment would you suggest in a case like this, where safety, not income is the paramount consideration?

I myself own 40 shares of Chesapeake & Ohio Railway Common and 27 shares of Goodrich Preferred, and the last item bought a long time ago when they were first issued. Referring to your article "Hedge Against Inflation," which of my holdings would you sell and invest in either Gulf Oil, Standard Oil of N. J. or in any of the other "hedges?" I paid for Goodrich Preferred at time of issuance $103 or $105, Chesapeak & Ohio common $46.25.

I feel so much more comfortable since I established contact with you people having found somebody who will give me honest advice.

This is the only time I shall use your services during the current subscription.

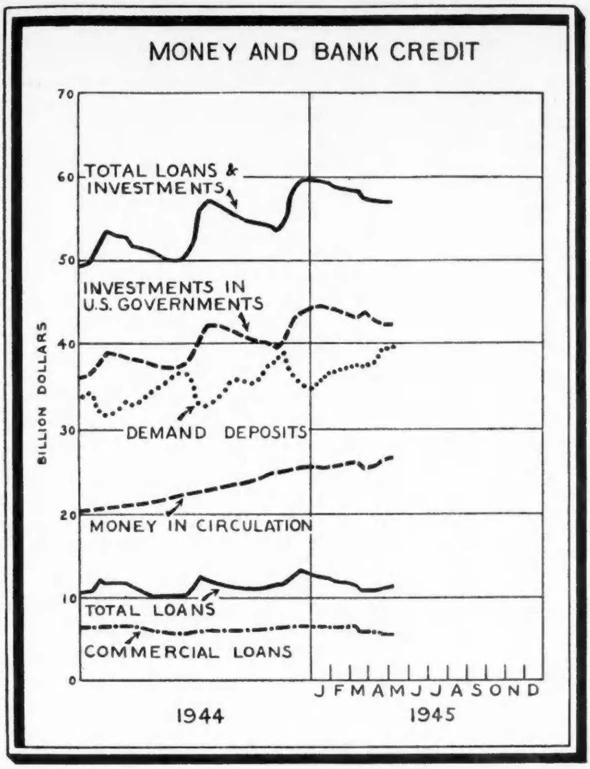
Thanking you.

W. F., Lakewood, Ohio

As to your securities, the yield on Goodrich preferred is satisfactory, however, as this stock is selling above the call price of 100, we recommend sale and placing the proceeds on a softness in the market in one of the "hedge" securities suggested in our magazine. Your other securities are suitable for retention at this time.

In regard to the funds your daughter has for investment, as you state you do not wish her to be exposed to the risks of the market nor to make her market-conscious at her age. We have taken into consideration your objective of safety rather than income and as the general bond market is currently selling at the highest level in history, we recommend placing your daughter's funds in U. S. Postal Savings paying 2% annually and aavilable at any post office up to $2500 or U. S. War Bonds Series E or G.

Perhaps at some future date when high grade bonds or a high grade equity like American Telephone & Telegraph are available at much more attractive levels, the funds may be invested in these issues and income increased.



SUMMARY

MONEY AND CREDIT—Industrial net income for first quarter estimated by National City Bank at annual rate of 9% on net worth, against only 8.8% last year.

TRADE — With consumers perhaps waiting for reconversion goods, department store sales in the week ended May 5 were estimated at only 4% above last year, compared with increases of 9% for four weeks and 13% for the year to date.

INDUSTRY—Business activity rises to 3% above last year. Cut-backs in next few months may be less than recently announced. Reconversion still subject to changing estimates of military needs.

COMMODITIES — Spot prices reach new war-time highs on mounting estimates of relief needs abroad, despite better box car supply for shippers. Futures hesitate under suspicion that western hemisphere surpluses may exceed ocean shipping fasilities.

The Business Analyst

Business Activity has risen sharply since our last issue to a level nearly 3% above last year at this time. Our business index for April, at 172.3% of the 1935-9 average, was 0.6 point ahead of March and nearly 1% above April, 1944. On a per capita basis, the index averaged 160.4 for April, compared with 159.7 in March and 160.6 for April of last year.

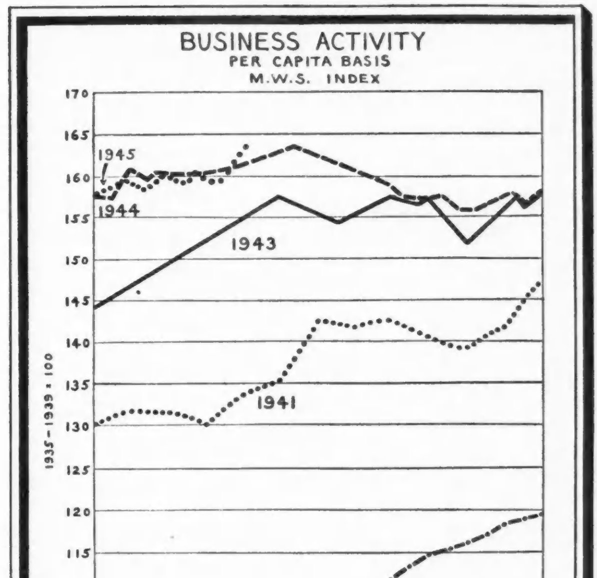
* *

Retail Sales, though varying widely throughout the country, continue to hold well above last year in the aggregate. With the termination of armament needs for Europe and mounting emphasis upon the Pacific war, trade has already begun to fall off in mid-western cities hit by cutbacks while climbing to boom levels in populous areas of the Pacific Coast.

* *

Despite the recent go-ahead signal for **Limited Reconversion,** business interests may well bear in mind that the exigencies of war will continue to have first call upon manpower and materials until the end of organized resistance in the Pacific and on the Asiatic mainland is in sight. Civilian war agency officials think the Army is over-optimistic

(Please turn to the following page)



Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	May 9	1.95	1.68	1.92	0.43
Cumulative from Mid-1940	May 9	277.2	275.2	186.6	14.3
FEDERAL GROSS DEBT—$b	May 9	235.5	235.1	185.2	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	May 9	39.5	39.1	34.9	24.3
Currency in Circulation	May 9	26.3	26.2	21.7	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	May 9	6.20	6.27	5.23	3.92
100 Other Cities—$b	May 9	7.76	7.81	7.33	5.57
INCOME PAYMENTS—$b (cd)	Mar.	13.72	12.74	12.98	8.11
Salaries & Wages (cd)	Mar.	9.59	9.53	9.14	5.56
Interest & Dividends (cd)	Mar.	1.34	0.49	1.16	0.55
Farm Marketing Income (ag)	Mar.	1.45	1.35	1.43	1.21
Includ'g Govt. Payments (ag)	Mar.	1.51	1.40	1.53	1.28
CIVILIAN EMPLOYMENT (cb)m	Mar.	50.8	50.6	50.5	50.4
Agricultural Employment (cb)	Mar.	7.3	6.8	6.9	7.7
Employees, Manufacturing (lb)	Mar.	15.4	15.5	16.6	13.6
Employees, Government (lb)	Mar.	6.0	5.9	5.9	4.5
UNEMPLOYMENT (cb) m	Mar.	0.8	0.9	0.9	3.4
FACTORY EMPLOYMENT (lb4)	Feb.	160	160	134	147
Durable Goods	Feb.	216	216	241	175
Non-Durable Goods	Feb.	116	116	121	123
FACTORY PAYROLLS (lb4)	Feb.	329	330	345	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Feb.	45.5	45.4	45.3	40.3
Hourly Wage (cents)	Feb.	104.3	104.6	100.3	78.1
Weekly Wage ($)	Feb.	47.43	47.52	45.47	31.79
PRICES—Wholesale (lb2)	May 5	105.7	105.7	103.7	92.2
Retail (cdlb)	Mar.	139.6	139.6	135.1	116.1
COST OF LIVING (lb3)	Mar.	126.8	126.9	123.8	110.2
Food	Mar.	135.9	136.5	134.1	113.1
Clothing	Mar.	143.7	143.3	136.7	113.8
Rent	Mar.	108.3	108.3	108.1	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	Mar.	6.35	5.17	5.58	4.72
Durable Goods	Mar.	0.84	0.69	0.77	1.14
Non-Durable Goods	Mar.	5.51	4.48	4.81	3.58
Dep't Store Sales (mrb)	Mar.	0.63	0.45	0.50	0.40
Retail Sales Credit, End Mo. (rb2)	Mar.	2.41	2.17	2.07	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Mar.	351	367	271	212
Durable Goods	Mar.	562	596	384	265
Non-Durable Goods	Mar.	215	220	198	178
Shipments (cd3)—Total	Mar.	283	287	268	183
Durable Goods	Mar.	384	394	377	220
Non-Durable Goods	Mar.	213	214	193	155
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	Mar.	26.6	26.6	28.0	26.7
Manufacturers'	Mar.	16.4	16.5	17.5	15.2
Wholesalers'	Mar.	3.9	3.9	4.1	4.6
Retailers'	Mar.	6.3	6.2	6.4	7.2
Dept. Store Stocks (rb)—I	Mar.	145	148	148	139

PRESENT POSITION AND OUTLOOK

(Continued from page 207)

about the amount of war material now in Europe that can be reconditioned and transported for use without costly delay in implementing the all-out war against Japan.

* * *

Present plans of the Army call for **Demobilization** of around 1.5 million of our African and European forces, a shift of about 6 million (after home furloughs) from Europe to the Pacific, thus building up our land forces against Japan to near 7 million while leaving in Europe an **Army of Occupation** numbering approximately 400,000.

* * *

The time required for complete **Resumption of Civilian Production** rests upon many contingencies of which only bare outlines can be supplied at this early stage. The main controlling factors will be the duration of Japan's resistance (which is anybody's guess), Government fiscal policies, availability of key materials, wage scales and price controls.

* * *

As to fiscal policy, it is somewhat encouraging to note the first step toward **Retrenchment** taken by our new President in asking Congress to drop over $7.4 billion from war program funds already appropriated or projected. Most of this saving will come from abandonment of plans for further expansion of our merchant marine.

* * *

Resumption of full production of important civilian durable goods—such as automobiles, refrigerators, washing machines and electric irons—may be retarded by **Shortages** of textiles for seat fabrics, copper wire, small electric motors, nickel, tin, lead lumber paper, etc.

* * *

Perhaps the greatest of all reconversion uncertainties is the matter of **Pricing** which, in turn, hinges upon the Administration's **Wage Policy.** Piecing together various official statements and Agency decisions, it appears that the endeavor will be made to hold take-home pay at the highest possible level while avoiding increases that would shove the country into an inflation spiral. This is easier said than done.

* * *

Washington still worries about **Inflation,** and rightly so; but for the wrong reason. It is feared that people with large war-time savings will go on a spending spree, quite overlooking the fact that **Redundant Money** plays a **Permissive,** but **Not Causative,** role in the tragedy of inflation.

* * *

Earners (labor, producers and distributors), **Not Spenders** (consumers), are primarily **Responsible** for rising prices. Here we have an obvious conflict of self interest which is not greatly mollified by the circumstance that most, though far from all, spenders are also earners. You and I want to earn all we can and at the same time make our money go as far as possible.

* * *

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	May 5	163.2	162.5	161.5	141.8
(M. W. S.)—I—np	May 5	175.5	174.7	172.2	146.5
INDUSTRIAL PROD. (rb)—I—np	Mar.	236	236	241	174
Mining	Mar.	142	141	139	133
Durable Goods, Mfr.	Mar.	347	347	364	215
Non-Durable Goods, Mfr.	Mar.	176	176	175	141
CARLOADINGS—t—Total	May 5	863	899	836	833
Manufactures & Miscellaneous	May 5	405	411	377	379
Mdse. L. C. L.	May 5	113	114	106	156
Grain	May 5	52	53	38	43
ELEC. POWER Output (K.w.H.) m	May 5	4,397	4,419	4,235	3,269
SOFT COAL, Prod. (st) m	May 5	10.8	12.2	11.8	10.8
Cumulative from Jan. 1	May 5	205	195	223	446
Stocks, End Mo.	Mar.	45.5	45.8	51.8	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	May 5	4.8	4.8	4.5	4.1
Gasoline Stocks	May 5	91.3	94.1	88.2	87.8
Fuel Oil Stocks	May 5	39.5	39.8	50.5	94.1
Heating Oil Stocks	May 5	28.8	28.3	30.4	54.8
LUMBER, Prod. (bd. ft.) m	May 5	500	522	616	632
Stocks, End. Mo. bd. ft.) b	Apr.	3.2	3.3	3.4	12.6
STEEL INGOT PROD. (st.) m	Apr.	7.31	7.71	7.59	6.96
Cumulative from Jan. 1	Apr.	28.9	21.6	30.2	74.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	May 10	38.9	40.6	42.2	93.5
Cumulative from Jan. 1	May 10	600	561	679	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	May 5	223	142	187	165
Wood Pulp Stks., End Mo. (st)t	Mar.	74.9	72.2	78.1	98.5
Machine Tools, New Orders—m	Mar.	46.7	58.0	41.0	80.0
Whiskey, Dom. Sales (tax gals.) m	Mar.	4.56	4.91	5.27	8.14
Do., Stocks, End Mo.	Mar.	325	331	368	506
Cigarettes, Domestic Sales—b	Mar.	18.7	16.7	20.0	17.1

PRESENT POSITION AND OUTLOOK

(Continued from page 208)

Organized pressure groups which have the ear of Congress are quite vocal in asserting that prosperity can be maintained only under a regime of ever rising wages, prices and profits. It might work if the incomes of numerous consumers without political influence, at home and abroad, kept pace with the leaders in this inflation race.

* * *

But we live in a world where men, though created equal, do not enjoy equal incomes; yet are compelled to pay equal prices. Inflation thus exhausts the market, domestic and export, upon which full employment depends. Of necessity, consumers pay the bill, grumblingly, so long as they are able to. When the savings of families with below-average incomes have been drained dangerously there comes the so-called **"Buyers' Strike,"** followed by industrial depression.

* * *

To forestall such a catastrophe, Washington officias are virtually unanimous in holding that **Price and Wage Controls** must be maintained until civilian supplies again become plentiful.

* * *

Ag—Agriculture Dep't. b—Billions cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonally adjusted Index, 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasurry and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

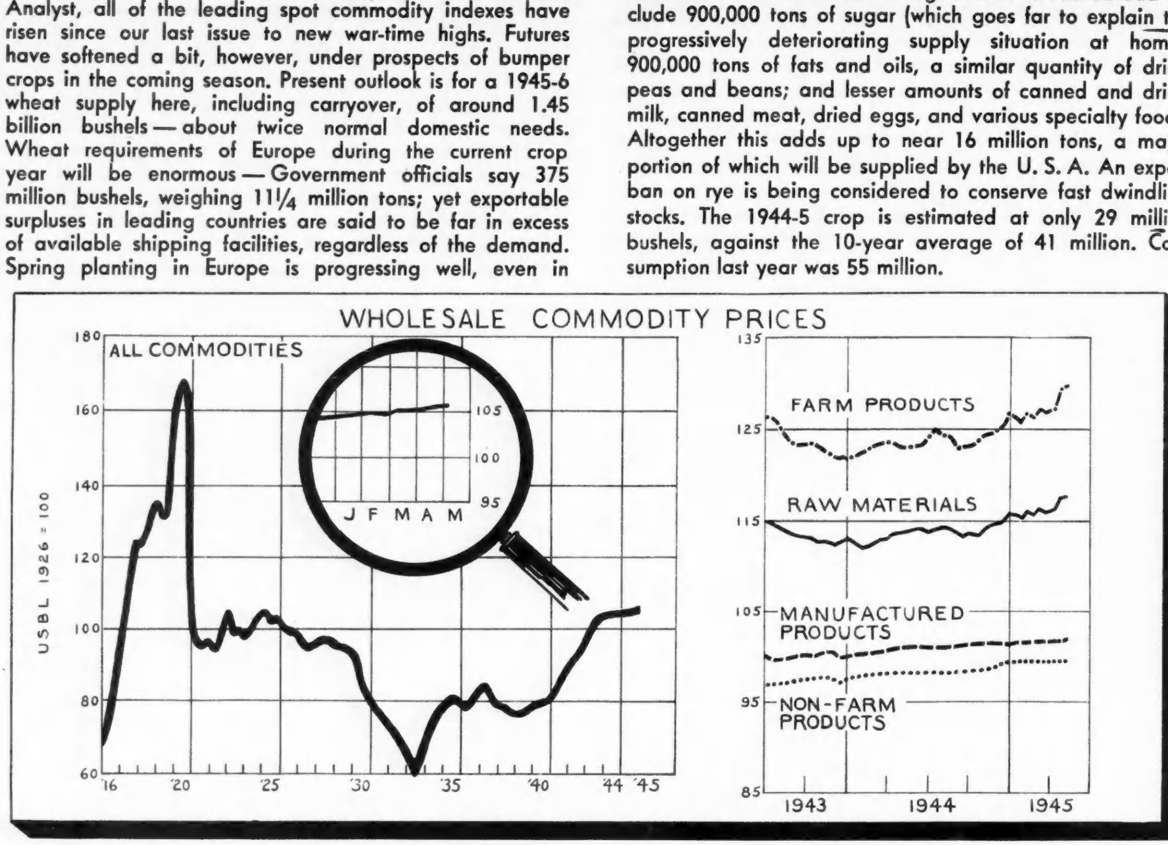
No. of Issues (1925 Close—100)	1945 Indexes High	1945 Indexes Low	Apr. 21	Apr. 28
290 COMBINED AVERAGE	123.9	105.0	123.9Q	122.5
4 Agricultural Implements	187.4	160.5	187.4H	187.2
10 Aircraft (1927 Cl.—100)	175.6	156.0	172.5	166.7
6 Air Lines (1934 Cl.—100)	720.6	559.6	698.4	720.6Z
5 Amusement	85.7	78.9	85.0	83.2
13 Automobile Accessories	218.4	178.2	218.4Z	215.9
12 Automobiles	46.2	33.8	46.2Q	45.6
3 Baking (1926 Cl.—100)	16.6	14.3	16.4	16.4
3 Business Machines	252.3	221.3	238.7	252.3H
2 Bus Lines (1926 Cl.—100)	160.6	123.5	160.6U	155.4
4 Chemicals	207.5	189.2	207.5H	203.9
4 Communication	86.0	73.5	86.0J	84.2
13 Construction	52.1	42.3	51.5	52.1H
7 Containers	320.5	276.5	320.5H	310.0
8 Copper and Brass	83.2	74.8	[illegible]	79.6
2 Dairy Products	57.4	47.6	[illegible]	57.4P
5 Department Stores	50.5	39.8	50.5Q	49.5
5 Drugs and Toilet Articles	139.2	117.6	139.2Q	[illegible]
2 Finance Companies	253.9	222.1	[illegible]	246.1
7 Food Brands	153.4	134.5	153.4Z	[illegible]
2 Food Stores	67.6	56.1	67.6L	[illegible]
4 Furniture	98.0	81.6	98.0H	94.9
3 Gold Mining	1117.7	938.3	1046.2	1117.7F

Nov. 14, 1936, Cl.—100)	High	Low	May 5	May 12
100 HIGH PRICED STOCKS	85.36	73.59	85.36H	83.28
100 LOW PRICED STOCKS	136.24	112.22	136.04	136.24H
6 Investment Trusts	52.6	44.7	52.6H	48.9
3 Liquor (1927 Cl.—100)	539.4	391.0	539.4Z	515.9
8 Machinery	166.6	137.5	166.6H	161.2
2 Mail Order	111.3	96.7	111.1	108.8
3 Meat Packing	88.2	68.6	79.7	80.0
11 Metals, non-Ferrous	173.3	149.0	169.5	170.0
3 Paper	22.5	18.9	22.5H	22.3
22 Petroleum	167.1	142.5	167.1R	159.9
19 Public Utilities	75.6	55.4	75.3	75.6H
5 Radio (1927 Cl.—100)	31.5	27.5	31.5H	31.0
7 Railroad Equipment	81.1	68.9	80.5	78.6
21 Railroads	31.0	22.8	30.2	29.9
2 Shipbuilding	115.6	96.6	109.9	99.6
3 Soft Drinks	443.6	402.9	432.3	421.5
12 Steel and Iron	96.5	82.8	96.5F	93.3
3 Sugar	58.1	55.3	57.8	57.7
2 Sulphur	212.4	173.5	212.4L	206.2
3 Textiles	69.6	58.5	68.9	68.4
3 Tires and Rubber	38.2	34.0	38.1	37.6
5 Tobacco	76.5	67.5	75.2	74.8
2 Variety Stores	273.1	255.6	273.1H	272.0
21 Unclassified (1944 Cl.—100)	112.1	100.0	111.7	112.1A

New HIGH since: A—1944; F—1939; H—1937; J—1936; L—1934; P—1931; Q—1930; R—1929; U—1926.
Z—New all-time HIGH.

Trend of Commodities

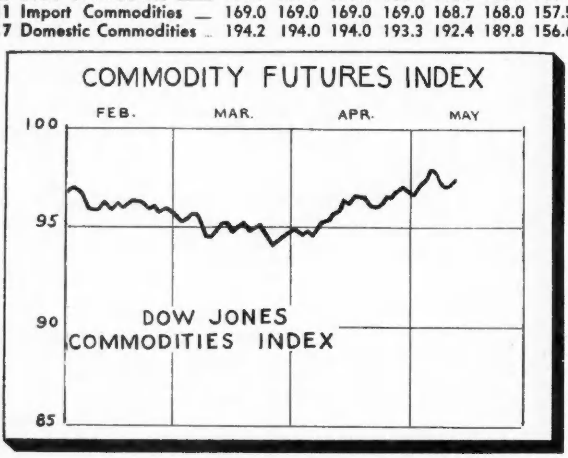
Though grain is now moving to market much more freely than a year ago, as may be noted from carloading statistics presented on the preceding page of the Business Analyst, all of the leading spot commodity indexes have risen since our last issue to new war-time highs. Futures have softened a bit, however, under prospects of bumper crops in the coming season. Present outlook is for a 1945-6 wheat supply here, including carryover, of around 1.45 billion bushels — about twice normal domestic needs. Wheat requirements of Europe during the current crop year will be enormous — Government officials say 375 million bushels, weighing 11¼ million tons; yet exportable surpluses in leading countries are said to be far in excess of available shipping facilities, regardless of the demand. Spring planting in Europe is progressing well, even in Germany; but, pending new harvests, every ton of feed grains that can be delivered will be needed to condition livestock. Other estimates of urgent food needs abroad include 900,000 tons of sugar (which goes far to explain the progressively deteriorating supply situation at home), 900,000 tons of fats and oils, a similar quantity of dried peas and beans; and lesser amounts of canned and dried milk, canned meat, dried eggs, and various specialty foods. Altogether this adds up to near 16 million tons, a major portion of which will be supplied by the U. S. A. An export ban on rye is being considered to conserve fast dwindling stocks. The 1944-5 crop is estimated at only 29 million bushels, against the 10-year average of 41 million. Consumption last year was 55 million.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equals 100

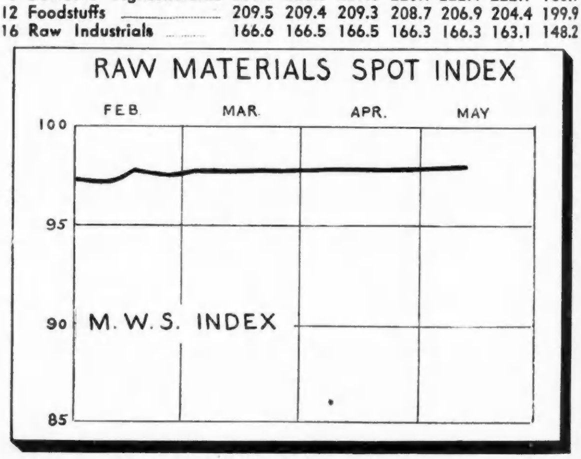
	Date May 12	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1-Yr. Ago	Dec. 6 1941
28 Basic Commodities	183.9	183.8	183.8	183.4	182.7	180.9	156.9
11 Import Commodities	169.0	169.0	169.0	169.0	168.7	168.0	157.5
17 Domestic Commodities	194.2	194.0	194.0	193.3	192.4	189.8	156.6

	Date May 12	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1-Yr. Ago	Dec. 6 1941
7 Domestic Agricultural	228.1	226.6	227.0	225.1	222.4	222.1	163.9
12 Foodstuffs	209.5	209.4	209.3	208.7	206.9	204.4	199.9
16 Raw Industrials	166.6	166.5	166.5	166.3	166.3	163.1	148.2



Average 1924-36 equals 100

	1945	1944	1943	1942	1941	1939	1938	1937
High	98.66	98.13	96.55	88.88	84.60	64.67	54.95	82.44
Low	93.90	92.44	88.45	83.61	55.45	46.50	45.03	52.03



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1945	1944	1943	1942	1941	1939	1938	1937
High	98.0	97.6	96.0	89.1	85.7	78.3	65.4	91.5
Low	96.7	94.9	89.3	86.1	74.3	61.4	57.5	64.7

Companies With Large Tax Windfalls

(*Continued from page* 181)

ing the need of borrowing money to defray reconversion expenditures or at any rate cutting down such need to more conservative proportions.

All together, if in planning for the first stages of reconversion, business cannot look for any cut in tax rates, it can count on a series of amendments designed to put considerable cash in its pocket during the shift from war work to civilian production. That, in substance, is the meaning of the new "interim" tax program now being drafted. Except for the proposed change in EPT exemption, the measures contemplated involve no long-run savings for corporate taxpayers. But they will improve — sometimes materially — the working capital position of business simply by advancing the dates on refunds that would be due at one time or another anyhow. Beyond that, any tax relief apparently must await at least the end of the war against Japan, according to the present outlook.

Impact On Oils

(*Continued from page* 183)

to only $5,645,181. Since no provision was made for E.P.T., the amount would not have been very large per share on the company's huge capitalization.

Standard Oil Company of Ohio stated in its annual report "in addition to assisting toward the procurement of crude oil for its refineries, the company's production now constitutes a very substantial source of additional earnings. Also the provisions of the Revenue Act with respect to percentage depletion and intangible drilling cost deductions from taxable income provide assistance to production activities, which are of particular importance in a period of high taxes such as the present. The high rate of exploration and wildcat drilling during the war has proven the soundness of these provisions of the Revenue Act from the standpoint of encouraging crude oil exploration and drilling activities in a time when, in spite of high costs and other difficulties, it is so necessary that the crude reserves and current producing ability of the nation be maintained at a very high level." No wonder Standard Oil of Ohio is interested; since last year it charged off for "non-productive wells, lease renewals and abandonments, and other exploration expenses" $7,236,073 which exceeded the amount of net income. In fact, on an E.P.T. basis the tax saving works out at about $7.20 a share, compared with reported earnings of only $2.83 for the common stock!

Standard Oil of New Jersey's report does not clearly indicate the amount of its intangible cost, which is probably fairly heavy. Standard Oil of California charged off $15,461,343 for exploration and unproductive wells. On an E.P.T. basis the tax saving might have accounted for some $1.01 out of $3.34 earned. Standard Oil of Indiana in 1943 charged $7,668,007 which on an E.P.T. basis might be equivalent to 43c out of the earnings amounting to $3.87. Texas Company, which carries its accounts on an amortized basis, charged off $23,602,656 on which the excess profits taxes might amount to $1.80 a share out of $4.85.

The above figures should be considered maximum estimates, especially where based on full application of E.P.T. But these estimated results are sufficient to indicate the vital character of the ruling to the oil industry in general and to certain companies in particular. Oil company stockholders will be keenly interested in its final disposition.

The latest development was that the New Orleans court refused to reverse its basic decision on intangible drilling costs but limited application to "obligation wells" instead of letting it apply to all drilling operations. Welcome as this move was to oil men, the court's action failed to remove the uncertainty which already has resulted in widespread cutbacks in drilling. The court, in refusing a rehearing, insisted that its original reasoning was sound, and that it was limiting its decision only because total retroactive annulment of the tax regulation would gravely affect persons not represented in the litigation.

To guard against a reversal of tax bureau policy, the oil and natural gas industries now intend to press for congressional action.

1945 Re-Appraisal of Chemical Industry

(*Continued from page* 192)

in 1926 to 167.7 in 1929, down to 19.8 in 1932, up to 128.7 in 1937, down to 70.1 in 1938, up to 122.2 in 1939, down to 73.5 in 1942, up to 115.2 this year to date. In market terms, that looks more like fluctuation than growth. True, this group is now much further above its 1926 average than is the general market, but it is under 1929, 1937, 1939 highs.

At the right prices, chemicals are excellent buys—but the same can be said for stocks in any industry. From the present level to the termination of this bull market, the chemicals, in this writer's opinion, probably will advance less than the industrial average; go down less, also, in the next major decline. One more thing: You will have to wait a long time for dividends that will provide a yield of as much as 4 per cent on leading chemicals bought at present prices. In fact, the next considerable increase in yields is more likely to be provided by market reaction than by raised dividends.

Investment Audit of Pullman Incorporated

(*Continued from page* 199)

have yet been made public, it is understood that they have no intention to go through with the transaction during the war.

Comparative Balance Sheet Items ($ millions)

ASSETS	1941	1944	Change
Cash	23.617	28.874	+5.257
Marketable securities	8.604	62.814	+54.210
Receivables, net	18.028	48.652	+30.624
Inventories, net	46.438	32.835	—13.603
Equip. trust & other defd. pay. car acc'ts	8.689	2.648	—6.041
TOTAL CURRENT ASSETS	105.376	175.823	+70.447
Plant & equipment	332.681	332.672	—0.009
Less depreciation	216.899	248.392	+31.493
Net property	115.782	84.280	—31.502
Other assets	12.609	36.401	+23.792
TOTAL ASSETS	233.767	296.504	+62.737
LIABILITIES			
Accts. pay. & accru.	21.209	38.088	+16.879
Reserve for taxes	8.679	40.871	+32.192
Other current liabilities	——	——	——
TOTAL CURRENT LIABILITIES	29.888	78.959	+49.071
Deferred liabilities	16.441	17.142	+0.701
Minority Interest	.006	.006	——
Reserves	6.378	21.153	+14.775
Capital	132.116	129.196	—2.920
Surplus	48.938	50.048	+1.110
TOTAL LIABILITIES	233.767	296.504	+62.737
WORKING CAPITAL	75.488	96.864	+21.376
Current ratio	3.5	2.2	—1.3

In the meantime, Pullman has continued with its research work in the development of new models and designs for improved sleeping cars and other railway equipment. The immediate aim has been to produce lightweight freight and passenger equipment of the most advanced design, with proper strength requirements and at the lowest possible cost. Engineering studies have continued in connection with new materials such as steel alloys, aluminum, magnesium, various plastics and fabrics, etc. The Pullman exhibit entitled "Tomorrow's Trains Today" shown recently in New York and other cities, attracted wide-spread interest among buyers of railroad passenger equipment.

Pullman-Standard should enjoy a substantial manufacturing business for the next two or three years. The railroads have large amounts of cash to spend for new lighter-weight equipment. They will need high-speed passenger trains to compete with airplanes. Freight cars can be built to eliminate 2½ tons of unnecessary deadweight and further reduction can be made in the deadweight of box or open type cars if automatic brakes are used. Lightweight freight cars built by Pullman-Standard have been in service for over 13 years, proving their structural soundness. The company has mass production welding facilities to do the job quickly and economically, when the railroads replace their war-worn freight cars. President Liddle has stated that with capacity operations his firm can produce in nine months as many railroad cars as it produced in nine years before the war (1934-42).

Pullman-Standard in February this year announced that it had planned to expend several million dollars to modernize and expand its plants for speedy construction of rail equipment, including newly-designed passenger cars. The program would embrace all six of the company's plants, including overhauling and rearrangement of facilities for more efficient operation. In addition to railroad equipment the company is planning to produce by improved methods street cars and trolley coaches, buses, etc.

Pullman is currently selling around 54, the 1945 range being 54⅝-47¼, the 1944 range 52⅛-37½. Based on the $3 dividend rate paid since 1942 (50c quarterly and $1 year-end extra), the current yield is 5.55%. This yield is well above average for high-grade industrial and utility stocks—especially companies with such a strong cash position and long dividend record as Pullman's. The price-earnings ratio is about 13½ based on last year's earnings of $3.99. The latter figure includes the post-war tax refund of 86c a share, but was after a reserve for contingencies of exactly the same amount; however, these earnings are subject to renegotiation.

It is difficult to forecast post-war earnings but profit margins will doubtless be higher for the manufacture of rail equipment than for present airplane assembly operations and Navy vessel work. While sale of the sleeping car business is supposed to be consummated by next March, further delays may ensue. Liquidation of that business might mean a substantial cash distribution to stockholders unless the funds are reinvested in other lines of business. In the past two years the manufacturing business has earned about $1.12 a share and this is supplemented by income from investments, which will now include Kellogg. With an indicated substantial improve-

ment in manufacturing profits from now on (due to better margins and possibly lower taxes), prospects appear very favorable for this old-line company even if it has to sell its historic sleeping car business.

With longer term prospects highlighted by large deferred demand of the railroads and increasing diversification of the company's business, the capital stock at recent market price of 52¼ appears to have above average appeal, with potentialities inherent in the segregation order adding to speculative interest. On a purely statistical basis, the stock's position is fairly impressive. Book value is $61.14 per share, and net current asset value $29.98 per share. Cash items alone amount to $28.22 per share, an unusual showing, but then, financial strength and liquidity has always been one of Pullman's outstanding characteristics, though hardly in the same degree as today.

In appraising the future, however, there is one point to consider. If divested of the sleeping car business, the company's operations over the longer term may be more susceptible to cyclical influences than in the past (although that factor was always present in some measure); however, the trend towards diversification may provide an increasing offset.

Special Selections For Profit In Quality Stock Movements

(*Continued from page* 188)

above the group average of 82.5%. The high price of this issue naturally enhances its volatility, daily price fluctuations sometimes nearly equalling a year's dividend. Intermediate market trends of late years produced a price spread of 65 points in 1943 and again in 1944, and during the first four months of 1945 the range has been about 31 points. From the aspect of volatility, Singer has merit if an investor is fortunate enough to capture part of the opportunity afforded.

Some of the lower-priced stable dividend payers show equal volatility, although their price fluctuations should be measured in terms of percentage rather than points. Burroughs Adding Machine is an interesting example in this category. Stock of this strongly entrenched concern with an enviable record of dividend distributions is currently selling at about 16, its highest level since Pearl Harbor, and compared with a low of 6¼ in 1942 representing a gain of 153%. Prewar investor appraisal of the stock established a high of 35⅝ in 1937, 469% above the 1942 low. A modest price range of only three or four points in each war year might seem uninteresting, but percentagewise, or in terms of dividends it is substantial as distributions to stockholders in 1944 were only 70 cents per share.

Another "blue chip" enjoying deservedly high investment rating but relatively sensitive to general market volatility is Dow Chemical. Recently selling at 142¼, its percentage advance from the low of 95 in 1942 has been only 50%, or below average for the group under consideration. However, annual fluctuations during the current bullmarket add up to 106 points, disregarding all daily or monthly variations. Considered in terms of yearly price ranges, or intermediate movements, potential profits from volatility could

(*Please turn to page* 214)

(*Continued from page* 213)

have more than doubled an original investment in this stock at 95 in 1942. As a practical matter, of course, no one could achieve such a spectacular goal as this, but if he made only minor strides in this direction, he would be just that much to the good.

It is unnecessary to comment further on individual issues listed in the table, although the reader may enjoy using a pencil ad lib. The object of the study is not so much to encourage speculation in the ordinary sense of the word. Attention is merely directed to additional advantages which might accrue in handling a portfolio of carefully selected, top-notch dividend payers, bought for cash and primarily for income dependability. It is not nearly as difficult as it may seem to time the taking of profits established in intermediate market swings, and with patience the chances of replacement at a reasonably lower figure usually are in the investor's favor. As long as the stock market refuses to become static, as it always will, legitimate opportunities for investors with a sense of timing will always be present. In the quality stock group, there is the added advantage of assured income and far less inherent risk.

Position and Prospects Of the Aircrafts

(*Continued from page* 195)

Under the circumstances, the aircraft industry will be fortunate if more immediate postwar demand reaches $1 billion annually, including military, commercial and private planes. This would be nearer 5% than 10% of last year's output. On such a volume, the industry as a whole could do quite well provided that sound and smooth transitional procedure leaves it in a financially healthy position. The latter, then, will be a prime determinant of the industry's future.

In spite of the complexities the future holds, the aircraft industry is looking ahead, if not optimistically then certainly with realistic determination. Preparatory to prospective change-over, the industry has requested immediate authority to proceed with postwar engineering and design to facilitate ultimate resumption of commercial production. In the interim, it will probably assume a large part of production tasks which have been assigned to other industries. This should keep it quite busy until the war in the Pacific is ended but conversely, it also means that the change-over problems thereafter will be accentuated unless the industry can get started on preliminary work that will speed up obsolescence of existing civilian planes and thereby expand peace-time markets as quickly as possible. As an initial step, WPB has granted permission to resume output of transport planes for airlines, provided such output does not interfere with war orders. Airlines have stated that they could use about 320 transport planes for deliverv before the end of 1946, mostly big four-engined craft. Limited resumption of production is a growing probability over the nearer term if plans now discussed materialize. Output of small civilian planes may also be under way by mid-year.

Chief contenders for the resumption of commercial transport manufacture at the moment are Douglas, Lockheed and Curtiss-Wright. Glenn L. Martin, being entirely engaged in production for the Pacific war, expects no early cutbacks, thus will probably join the parade later.

Douglas has a big volume of airline orders for four-engined craft and is pushing for early permission to bite into that backlog. Lockheed also has substantial orders on its books and is hopeful of getting a break on starting production for commercial delivery. Curtiss-Wright has its C-46 twin-engine transport for which prospects look good: it is ready to proceed immediately with commercial production.

Small plane makers are equally anxious to get started on civilian work; they believe that permission to build as few as 25 new craft each would be a big step toward speeding development of their postwar market for private planes. Negotiations to that end are now under way. Republic Aviation has already tentative orders for 3,000 of its $3,500 Seabee amphibian plane. Beech Aircraft, Cessna, Aeronca, Piper Aircraft, Taylorcraft and others report a strong interest on the part of dealers and the public with cash accompanying many orders, accepted on a "if and when" delivery basis. Most of these could put planes on the market within one to three months. So far the WPB has lent a sympathetic ear to their pleas and a decision may be expected shortly. Bell Aircraft, being one of the big producers of Super-Fortresses, continues tied down with military production. But for the postwar, Bell has its helicopter, and having pioneered the first jet planes in this country, is understood to be actively interested in developing newer models.

The light plane makers face the tough problem of meeting the public's demand for all modern improvements in airplane design and convenience — but at low cost. This foreshadows a terrific competitive race; small plane makers have not only to contend with competition among themselves but with the larger manufacturers, some of which will enter the light plane field as well. Moreover, the market for personal planes — notwithstanding the impetus given by war-time interest in aviation — is limited. It is estimated that there were about 20,000 private plane owners before the war, that prewar production was about 7,000 craft an-

nually. Because of its slow start on reconversion, the industry doubts that postwar output will exceed that figure for some time though aggressive merchandising may boost potentials.

While the postwar outlook for the aircraft industry is full of uncertainties, it should continue to do well during the remainder of the war. Any volume decline resulting from the latest cutbacks should, earningswise, be largely compensated for by the tax cushion. At the conclusion of hostilities, however, the whole industry will suffer from the drastic contraction in military demand. Physical reconversion will probably not be serious, since it will consist primarily of an extension of the earlier move toward returning to the aircraft manufacturers' plants the various productive functions now handled through subcontractors and other facilities. But financial problems will be acute, even though experience so far suggests that constructive Government action — absolutely essential to successful weathering of the transition period — will be forthcoming.

Resources, while huge measured by prewar standards, are small in relation to inventories and payrolls, and to probable requirements until normal markets are restored.

Today the industry is in substantially better position than even one year ago, thanks to continued sound financial practice. Public financing of aircraft manufacturing has been almost exclusively by sale of stock, thus virtually no debt burden exists. Depreciation charges have been liberal and dividend policies conservative. Very substantial postwar reserves have been set aside from earnings. Yet available resources may still be inadequate for a protracted reconversion. Whether they will suffice or whether new capital will be needed hinges largely on reconversion experience.

Available capital will probably prove adequate to finance postwar output as such, assuming that inventories can be liquidated promptly and without undue losses, that expenditures can be cut back rapidly and — most important — that the carry-back provisions of the tax law work effectively. The latter should be of substantial help if the period of possible reconversion losses synchronizes properly with the two-year provision in the law. In short, the need for fresh capital will essentially hinge on the problem of transition, the cost of *obtaining* postwar business and, possibly, the cost of acquiring additional facilities from the Government. There has been little expansion of regular plant facilities during the war, thus additions for handling postwar business may well be necessary in some cases.

However, all these questions can hardly be answered today, in the utter absence of knowledge of exactly how these factors will work out. The uncertainties in this respect are clearly reflected by the stock market where current quotations show that most aircraft equities sell not only at very low price-earnings ratios (anywhere from 1.5 to 6) but frequently at or even below net working capital per share. The nature of postwar adjustments naturally stresses the importance of financial positions; it can well be said that the latter probably constituted the prime motive behind recent buying flurries in aircrafts. Anyone interested in them must necessarily pursue a highly selective policy, in recognition of the industry's speculative position.

The accompanying table furnishes an extensive statistical picture of most aircraft manufacturers. A comparison of market price with net working capital per share immediately shows where market opinion suspects the greatest uncertainties or difficulties, although that sort of appraisal naturally must be taken with the usual grain of salt.

We find, for instance, that Consolidated-Vultee, Curtiss-Wright and Fairchild are selling below net working capital. Bellanca, Douglas, Lockheed, North-American Aviation and Republic Aviation sell at or near it, and Aviation Corp., Beech Aircraft, Bell Aircraft, United Aircraft, Glenn L. Martin, Grumman and Wright Aeronautical sell above net working capital, the latter three substantially so. Compared with book values, most shares sell considerably lower, Aviation Corporation, Brewster Aircraft, Grumman, North American, United Aircraft and Wright Aero being notable exceptions. Current ratios are extremely low throughout but this factor lacks the usual significance.

More important are the factors of liquidity such as the ratio of cash items to current liabilities which with few exceptions is outstandingly good. In many instances, the ratio of inventories to current assets is surprisingly low but in others such as Brewster Aircraft it is abnormally high, highlighting the importance

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of rapid inventory liquidation without undue loss. Postwar reserves while substantial in most cases are still small in relation to operating costs and frequently equal only a few days of such costs. This emphasizes the need for quickly cutting expenses when reconversion begins; any protracted reconversion procedure might lead to substantial dissipation of available resources. Some companies, as the table shows, have substantial tax refunds coming to them; according to present legislative intentions, these refunds may be made convertible into cash within six months after VE-Day, thus will bolster working capital positions to the extent of their magnitude.

In appraising aircraft shares, it must be stressed above all that even at low market prices, all are highly speculative, some radically so. With the advent of ultimate reconversion, an interim period of losses seems inevitable and companies best prepared to meet such contingencies are naturally in a preferred position. But even in this respect, appraisal at this time is a matter of conjecture rather than statistical certainty. The period of adjustment, however, is expected to be followed by partial recovery of volume and restoration of normal profit margins. The latter during the war years have been abnormally low, with net profits after income taxes of only 1.5% on 1943 sales, for instance. 1944 operations show a similar trend. Eventually, continuation of the industry's normal growth, proceeding from a sharply deflated postwar basis, is widely expected.

In the postwar, in all likelihood, price-earnings ratios will be closer to the average for other industrial stocks but nevertheless, aircraft equities will continue to be volatile market performers, suitable for price speculation rather than investment. Unfortunately, appraisal of the relative postwar position of individual companies is difficult at this time. Neither prewar nor wartime records provide a satisfactory basis for judgment. Prewar experience was roughly uniform, with small volume and heavy development costs restricting net. War-time profit margins are meaningless, since they reflect both abnormally large sales and strong Government pressure on prices and profits.

From the standpoint of ability to obtain immediate postwar business, some companies however appear in favored position. These include Douglas in the commercial plane field, Grumman and Republic as military suppliers. United Aircraft is well situated because of its wide diversification. Curtiss-Wright may benefit from engine operations. Jet propulsion is still in too early a stage to predict its eventual effect on the engine field, but if the principle gains widespread acceptance, both Curtiss-Wright and United Aircraft will doubtless participate in its growth.

Financially, Aviation Corporation, essentially a holding company, enjoys enviable liquidity and improved strength but postwar prospects remain to be clarified. Income from investments and manufacture are bound to recede materially after the war and lack of established normal earning power renders the stock extremely speculative despite planned diversification through entry into the household appliance field. Beech Aircraft, a smaller manufacturer who before the war specialized in commercial transports and private planes, like many others may face a severe competitive problem after the war. For the time being, the company continues heavily engaged in war work and operations should remain at high levels until conclusion of hostilities. The company, in addition to aircraft, is giving consideration to other postwar activities but so far, little is known about this aspect of its postwar planning.

Bell Aircraft has a pioneering stake in jet propulsion and is doing extensive development work on helicopters; war work should sustain earnings for the duration but the outlook thereafter is uncertain. The company produces no commercial planes and might have difficulty in entering this highly competitive field. Bellanca is a radical speculation with an erratic record and uncertain industry position. Finances are restricted and prospects of successful competition in the light plane field appear doubtful. Boeing Airplane faces a difficult transition but the longer term outlook is favorable in view of the company's diversified experience and strong industry position. The concern has large orders from airlines which should mitigate transitional problems.

Consolidated-Vultee faces drastic contraction of operations and the problem of successful exploitation of the commercial plane market against keen competition. Its strong industry position should assure it a part of postwar military orders, however, and war-time experience in the small plane field should prove helpful. Curtiss-Wright should have longer term growth potentials but the difficult transitional period it faces may be aggravated by large surpluses of engines and propellers; on the other hand, commercial transport orders for the postwar are on hand. The outlook of Douglas Aircraft is among the best within the group; the company has a backlog of postwar orders from airlines exceeding $100 million and additional large contracts are in prospect. Grumman, a leading supplier of naval planes, appears assured of its share in postwar military orders and sales well above prewar levels are indicated. The company also intends to enter the small plane field. Nevertheless, at present market price, the stock appears highly speculative.

Lockheed in the recent past had an active market following and is still conservatively priced. The company should be able to obtain a good volume of air transport business. In view of its leadership in the jet propulsion field, the stock may have speculative possibilities. Glenn L. Martin Co. ranks among the better situated aircraft manufacturers and should share in available military business after the war. While it has also potentialities in the commercial field, competition is likely to be keen. Selling at a *relatively* high price-earnings ratio (almost 6/1), the

stock is highly speculative.

North American Aviation should obtain its share of peace-time military business but the company's inexperience with commercial planes somewhat clouds the early postwar outlook. War-time production of small plane types may help in developing a postwar private plane market and affiliation with General Motors should aid in this. Pending clarification of prospects, however, the stock appears adequately priced in relation to other aircraft equities.

Republic Aviation's excellent operating record suggests that it will obtain a good share of available army business after the war, and the company is understood to be developing commercial planes. A fair volume of private plane business may be obtained. While highly speculative, the stock is not without attraction at current price which just about equals net working capital per share. United Aircraft is one of the largest and perhaps most widely diversified units in the industry but immediate postwar prospects are clouded by the threat of possible huge surpluses of engines and propellers which may cut into normal markets for a time. This uncertainty is reflected by the price of the common which, though selling at about five times 1944 earnings, is only moderately above its equity in net working capital. The company's well-established position and financial liquidity are favorable factors, however.

Wright-Aeronautical, a subsidiary of Curtiss-Wright, is a leading builder of airplane motors, reputedly the country's largest, and has a fairly consistent earnings record. Its essentially sound position and future potentials are reflected marketwise by a high price-earnings ratio (15/1) for the stock, which sells at almost twice its equity in net working capital. The company last year entered the gas turbine field for aircraft and may in the future produce engines up to 10,000 horsepower. Other recent developments include a special engine for short-range cargo and transport aircraft, primarily, for military planes. The company expects to exploit the postwar market for commercial jet and turbine engines and may apply the turbine principle to fields other than aircraft. These potentials at the moment are difficult to appraise but certainly lend color to Wright-Aero stock which shares with Douglas the distinction of being one of the few "blue chips" in the aircraft industry.

Survey and Forecast of Our Economy as European War Ends

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program that extends well beyond VJ-Day proper. The same applies to a good many other controls; their structure will be maintained to insure efficient prosecution of the war and smoothest possible transition. Important relaxations especially in the production field nevertheless have been made or are impending. Scores of orders limiting or prohibiting manufacture of civilian goods have been lifted, and others especially in the "hard goods" field will be lifted in the near future. After July 1, manufacturers can obtain steel, copper and aluminum without prior allotment; that date therefore actually will mark the real beginning of the reconversion cycle.

The outstanding characteristic of the opening months of 1945 was the shift in perspective on the economic outlook from the beginning to the end of the first quarter. From a sudden spurt in war output, emphasis reverted to anticipation of the economic consequences of cancellations following VE-Day. These consequences, as we have pointed out, represent a mixture of depressing and sustaining factors, and the big problem is to balance them out. The former consist of a vast array of reconversion difficulties, mostly technical and organizational. But on the other hand, factors making for continued high activity are present in extraordinary degree though they also pose the gravest inflationary threat. There is no possible doubt that civilian requirements can fairly quickly absorb all the workers released from war work — just as fast as readjustments can be made — and that both deferred wants and spending power are great. For a considerable time ahead, these are dominating influences in the outlook.

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The immediate question is not so much how much work there is to do but how much can be done, how smooth and efficient the reconversion process will be. In this respect the outlook is taking on a reassuring tinge, primarily because the process will be slow in getting under way. There will be neither a tremendous release of manpower with serious unemployment potentials nor a sharp and drastic drop of production and industrial earnings. That may come later but not while the war in the Pacific continues. For example, war production in the first quarter of this year was $14.45 billion. During the second quarter it is scheduled at $14.37 billion, during the third quarter at $13.76 billion. The over-all drop is barely 5%, a relatively insignificant figure, yet the interval provides precious time for starting reconversion in many industries.

Similarly, estimated Army procurement is now running at $2 billion monthly and will drop to $1.8 billion by the end of 1945, according to present estimates. Thereafter, however, it is expected to decline fairly sharply to around $1.1 billion a month in the last quarter of 1946, provided the war should last that long. Navy procurement on the other hand will continue at peak levels.

VE-Day without question was a military and political landmark of first magnitude; to judge from current prospects, however, it won't stand out as such a great economic milestone in the history of the war. The great turning point, economically speaking, will come with the end of the Pacific conflict, when war requirements will no longer support our economy and when all-out reconversion begins. The big question mark in planning thus remains VJ-Day, and official quarters are not ignoring the potentially terrific economic impact, should it come unexpectedly sudden. It would vastly complicate reconversion by telescoping into a few months the problems that are scheduled to be solved over a year or longer; above all it would create an enormous unemployment problem.

The War Stabilizer's office believes that in such an event the number of jobless could reach — for a short period — between ten and twelve million or as high as in the worst depression year of 1932. To meet such an eventuality, plans are being drawn up laying out basic policies. They would include the undertaking of public works on a large scale, notably highway building, and most likely a boost in unemployment compensation to $25 weekly. The projected policies would involve heavy Government spending but, as some officials put it, not as much as continued shooting war. The objective, of course, would be to maintain national income and purchasing power of the masses to avoid any sharp deflationary trend during the difficult industrial transition.

At the moment, however, there is little conviction that the end of the Jap war may be "just around the corner." Main preoccupation therefore is with "Phase 2," the period between VE-Day and VJ-Day that is tentatively estimated to last at least one year. What will be the over-all effect of the war machine's slowing down during this span? In exact details and imponderables that can hardly be gauged at this time. A rough outline has been attempted in this article; the real impact will hinge on the extent to which civilian goods manufacture can replace war output as it tapers off under stabilizing demands for a one-front war. The character of that war will have much to do with it.

War spending is currently running at an annual rate of $60 billion; within one year it will probably be down to perhaps $40 billion, possibly less depending on actual war needs. This drop, it is now estimated, should be accompanied by a decline of no more than about $15 billion in national income from the present annual rate of $160 billion. That would still call for economic activity of quite respectable proportions.

Around the World

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himself to co-operate in the program. First practical step by the United States was to provide a crew of expert technicians to assist the Chinese WPB, while China gave this latter organization sweeping authority over many of its ministries and provided it with a $10 million revolving fund from the four Government banks. That this sum is the equivalent of only $20 million in American money at present exchange rates indicates the fantastic inflation which has engulfed China and so importantly threatens her economy.

Fifteen sub-committees of the WPB now control every phase of Chinese production, from mines, agriculture and transportation to every kind of manufacturing. The entire program had to start from scratch, as only 1,350 factories existed in Free China, only 3% of her power facilities were left and only 5,800 of 20,000 battered trucks were of any use whatever. Furthermore Government arsenals were operating at only 40% of capacity and only on a one shift basis at that. Acceptance of modern efficiency methods somewhat smoothed the path of the American experts, with the result that Chinese factories are turning out rapidly increasing amounts of shells, bombs, tools, lathes, telephones, wire, sheet and bar steel. Alcohol output reached 12.5 million gallons last year and will be doubled in the current year. Oil production is rising rapidly, soon to be augmented by our shipment of 28,000 tons of essential refinery equipment, while the new 2,000 mile pipeline from India now carries 30,000 tons a month of aviation fuel. Air Transport over the "hump" will soon carry 75,000 tons of cargo monthly, and 15,000 new trucks are expected via the Stilwell Road each month bearing their load of 12,000 tons of freight.

While achievements to date are pitifully short of meeting China's requirements, they have notably boosted morale and will serve to hasten the day of active military cooperation with Allied forces to land on the Chinese coast. Then and then only will the heavy goods pour into the Chinese arsenal that will enable the Chinese army to assist in throwing out the

Japanese invaders. Thereafter, the new pattern of industrial activity in time may create a modernized China.

* * *

Canada's plans to bolster her postwar economy were all ready for practical expression when VE-Day arrived. The Government had wisely established a comprehensive and highly authoritative committee with representatives from all departments to stimulate and assist industry in sustaining postwar employment at a high level. Wartime controls are to continue in full force for a long time to come, and during this period civilians may expect no expansion in their supply of many materials and goods, such as tires, lumber or automobiles.

Canadian policy, as in the case of Britain, highlights special aid to increase exports, and direct Government aid will be furnished to industries likely to increase sales abroad. As over 70% of the war-swollen Canadian national income is now derived from exports to other countries, the impact of possible sharp cuts in military orders to the completion of which the Canadian economy is closely geared could have far-reaching effects upon her industrial structure.

Results of the coming election will be watched with anxious eyes by industrialists, as political pressure from the Left may result in extravagant government spending in an attempt to keep the economy on an even keel in the emergency of transition.

If Canadian contraction from war production by any chance outruns the similar process in the United States, a shortage of raw materials essential for civilian production may bring acute social problems to her door, and on a scale which could seriously affect her industrial setup in the longer perspective.

India, the habitat of famine, now has a new species of distressing shortage to plague her populace; this time it's cloth rather than food. What the Indians wear is of course scanty and often monotonous in its simplicity, but the population is so numerous that just to cover bare bodies requires an enormous total yardage throughout the country, and a lack of ready supply breeds economic, political and social repercussions.

Curiously enough, the current acute shortage of cloth in India closely resembles the vanishing supply of meat here in the United States. Statistically there is enough for everyone, but Indian shops have almost none for sale, with the result that crowds storm the stores in Calcutta as well as in the provincial towns. Familiar explanations of hoarding, black markets and faulty administration fill the Bengal newspaper columns while more sober examination of facts only deepens the mystery.

Under the impact of war, cloth rationing has been inevitable but to no serious extent as the Punjab has been allowed 18 yards per head annually against 22 yards in prewar years, Bombay 18 yards compared with 25 yards, and Bengal 10 yards as against its former quota of 12 yards. During the five months ending November, 1944, Bengal mills produced for civilian consumption 82 million yards of cloth, importing an additional 205 million yards for home consumption, or at a total rate of 13.9 yards per head annually. Furthermore, imports of raw cotton have steadily increased to over 30,000 bales per month and handloom production of cloth amounted to 67 million yards to bolster supplies. Factually, therefore, there seems to be little excuse for the current cloth shortage and prompt measures by the military are under consideration to break up rackets and the black market. Not so long ago, a similar critical and mysterious situation arose through an acutely diminished supply of rice in India, alleviated only after stern action by the military.

* * *

The process of industrializing Latin America is proceeding with undiminished vigor, and with promise of vast expansion during the next decade. Construction projects amounting to nearly three quarters of a billion dollars are under way or in the planning stage. Argentina, Brazil, Mexico and Chile importantly feature in the program, but Peru, Colombia and Ecuador as well are heading for a goal of greater economic self-sufficiency. Industrial growth of some of our Southern neighbors already has a ten years'

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Around the World

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start and has progressed to an extent often unappreciated except by United States exporters who note changing trends in Latin demands and can expect further radical shifts as time goes on.

In Chile, for instance, 3,000 factories now turning out low-priced goods by means of abundant cheap electric power greatly reinforce the economic structure, and a new cement mill will curtail her past substantial imports of this material. Production of cement, in fact, has been a primary object of all the important Southern countries as a fundamental in planned construction of modern plants and business buildings, Brazil alone having spent huge sums to produce perhaps $70 million worth of the material, which otherwise she would have had to import. Both Argentina and Mexico are approaching independence of foreign supplies of cement and other construction items, and to foster home consumption are using them in extensive housing programs of the most modern and substantial character.

Textile mills are growing in number in practically every Latin American country, Chile now having over 370, while Brazilian interests are constructing a huge cotton mill in Ecuador, raw products for its spindles and looms naturally to originate in Brazil rather than in the United States. Brazil's own cotton mills number over 400 and in Argentina there are about 600 textile mills of all kinds. The South Americans plan broad expansion of their facilities to manufacture cloth, and unless foreigners can supply better quality or lower prices, their sales potentials are likely to fade.

* * *

Above all, expansion of the Latin steel industry on a vast scale is likely to give American exporters keen competition when planned construction programs have been completed, for availability of raw materials, cheap labor and low cost power will give them a decided advantage, further enhanced by geographically easier access to their neighboring countries and relatively lower transportation rates.

Chile plans construction of a

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$50 million steel mill which will produce large quantities of sheets and rods, additionally supplying her with her annual requirements of about 150,000 tons of steel bars. Brazil's $75 million new steel works is nearing completion, and will soon be competing with our exporters in every part of the Southern Hemisphere. Over a year ago, Mexico came into production with a new iron and steel mill with a capacity of 100,000 tons; Colombia has a new rolling mill in operation and Peru is actively planning to establish her own steel industry as soon as conditions permit.

The over-all expansion in industry and public works now in the blueprint stage by our Southern neighbors will of course increase our export potentials for a long time to come, especially for equipment and construction items which they are not yet in a position to supply themselves. It has been estimated that during the next ten years nearly $500 million worth of new or used machinery will be shipped by United States exporters as the vast program unfolds.

This potential market for our domestic producers should greatly benefit our own postwar program, as the Latin American countries now have over $2 billion in U. S. banks with which to pay for their purchases, thus minimizing credit problems which complicate our trade with many other nations. But over the longer term, our $100 million annual export trade with South America may be subject to many changes in character in the years to come, once Latin industrialization gets into its own stride.

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Land of plenty in these days of scarcity is Mexico, provided ample funds are available to secure it. Superficially viewed, Mexico has been showered with luxuries and much desired items

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BOOK REVIEWS

BOOKS THAT WILL BE OF INTEREST TO YOU!

A MILLION HOMES A YEAR

By Dorothy Rosenman

Harcourt, Brace and Co. 333 pp. $3.50

As Chairman of National Committee on Housing, Inc., the author of this interesting book is well qualified to discuss the various aspects of postwar home building. A thorough analysis of the many factors which must be meshed to achieve better living conditions for individuals and communities is based upon Mrs. Rosenmans long and successful experience in this field, and her conclusions for a proper solution of the problem are soundly formulated.

PROSPERITY
We can have it if we want it

By Murray Shields and Donald Woodward

McGraw-Hill Book Company 190 pp. $2.00

Two distinguished economists have here joined forces to develop a sane and forward looking picture of potential prosperity in the United States, provided competition is maintained as a basic fundamental. While certain controls must be developed and employed by the Government, these should be limited in scope, while deficit spending, redistribution of income, and other cure-alls in themselves can never sustain the national income, the authors reason.

PRINCIPIO TO WHEELING 1715-1945

By Earl Chapin May

Harper & Brothers 335 pp. $3.00

As a history of the growth of an early frontier town and of a great steel company that bears its name, this book has especial interest. Few of us have realized that George Washington's father operated an iron mine and blast furnace in Colonial Virginia and thus pioneered the development of a great industry in our country. The Washington enterprise, known as Principio Furnace, grew through the years to become today's Wheeling Steel Corporation.

NEW WORLD OF MACHINES

By Harland Manchester

Random House 313 pp. $3.00

Only a seasoned writer like the author of this book, could assemble the mass of technical information it contains and present it interestingly for the average reader. Years of first hand research in laboratories and plants provided a sound basis for procedure. The book initiates the reader into the mysteries of television and radar, the wonders of communication, new engines, plastics, synthetic rubber, fluorescents, and the time saving machines of a new era.

THE ARGENTINE REPUBLIC

By Ysabel F. Rennie

The MacMillan Company 431 pp. $4.00

Perhaps no more comprehensive and forceful material than this book offers has yet been published. Written by a trained historian, residing in Buenos Aires during several years of its current political excitement, the book is an interesting history of Argentina and fully covers the events and personalities which have been responsible for its present unique place among our Southern neighbors. The story is dramatic in essentials and constitutes an authoritative record.

THE SOUTH AMERICAN HANDBOOK 1944

Trade and Travel Publications Ltd. 798 pp. $1.25

The 21st edition of this standard book, and well maintaining the established reputation of its predecessors. As a complete guide to South and Central America it provides a comprehensive manual of information about all countries in this region from Mexico to the Falkland Islands. The volume should prove valuable to business men, travelers and students alike. The publisher's U. S. agents are Thos. Cook & Son, Inc. and the H. W. Wilson Co., New York.

CITIES OF LATIN AMERICA

By Francis Violich

Reinhold Publishing Corporation, 241 pp. $3.50

Written from the point of view of a talented young architect with a thorough knowledge of the social and political forces which are moulding life in the Southern countries in the modern trend, this is very readable volume. Aside from its general human interest, the book is an authoritative survey of all forms of architecture and city planning in the urban and rural communities of the countries involved. Beautiful illustrations enhance interest for the reader.

POLITICAL HANDBOOK OF THE WORLD, 1945

Edited by Walter H. Mallory

Harper & Brothers 197 pp. $2.75

Published for the Council on Foreign Relations, this timely volume supplies essential information regarding political structures, parties and ideologies of all countries in the world. The book is right up to date, and gives special attention to the struggling political movements now shaping the future of liberated Europe. To all interested in the accendancy and decline of political pressure groups in different nations, this work is essential reading.

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unobtainable in the United States, but while it is true that a great variety of such goods can be purchased in Mexican stores, they are expensive and in no abnormal quantity — American cigarettes are offered by the carton, and there are new cars, radios and a long list of electric household appliances. Finest quality steaks are abundant, and there is no difficulty in getting the best of liquors, unlimited supplies of gasoline and highest quality textiles. In shopping, one would think that war had left Mexico completely untouched by the problem of scant supplies.

The fact of the matter is that in Mexico rich people are relatively few in number and the war has cut down the number of opulent tourists. As an established policy by Washington has enabled most American manufacturers to hold their Mexican trade by making limited shipments during the war, moderate quantities of goods of multiple description clog the Mexican shelves, with price tags uncontrolled by OPA.

As I See It!

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down is necessary in order that we establish a basis for firm and fast agreements with the assurance that they will be lived up to, so that all the peoples of the world may know where they stand in relation to the Soviet Union. In this way only can we put a stop to their policy of continuous encroachment on the sovereign rights of other peoples.

President Truman and Prime Minister Churchill have called for a conference with Premier Stalin which is becoming increasingly necessary—not only to solve the problems of Europe, but those of Asia as well. For, even while Russia is making her demands in Europe, she is setting the stage for expansion in Asia.

The Russian-instigated civil war in Sinkiang is gathering momentum and causes growing concern as the war in the Pacific is being accelerated. In early March, Mongolian planes marked with red stars bombed Sinkiang troops on the northern border, and the protests of the foreign minister went unheeded, with raid following upon raid and bombings lasting four days. In the meantime the Russian press entered the campaign with attacks on "reactionary elements in the Chinese Government and the Kuomintang leadership." It is evident that Russia is using the Yenan Communist group for the purpose of creating a bloc that in the end would include the Yenan Group, Sinkiang, Outer Mongolia, Tibet, as well as Manchuria, when the Japanese have been defeated. This intrigue which Russia has been manipulating for a long time behind the scenes in now clearly in the open and is in line with her claims to Manchuria and Korea.

Yet Russia is unlikely to attack Japan. She will prefer to wait until Japan has been thoroughly weakened, and save her forces to overrun the weakened Asiatic states she seeks to place under her away. Russia has been playing a very deep game and is unlikely to waste her depleted substance so long as she knows we are dedicated to the destruction of Japanese power. It is much easier to wait and collect the spoils. Only alterations in our plans in dealing with Russia could change the situation.

Those who believe that we should make dangerous concessions to secure Russian aid in the war against Japan are plainly unrealistic. There has been no breach in Russo-Japanese relations, for Russia did not cancel the Russo-Japanese neutrality pact. Mr. Molotoff's statement was worded so as to allow a most elastic interpretation. He did not explicitly declare the treaty to be null and void, and to this extent it may still be regarded as binding. What he did was to claim that Japan in lending assistance to Germany released Russia from her pledge of neutrality. It was an adroit way of serving Russia with a tool for bargaining with the Allies without jeopardizing her position in the Pacific. In fact the Japanese government confirmed this interpretation by the recent statement that her friendship with Russia was intact.

What the result of all the manoeuvers will mean to the war in the Pacific remains yet to be seen —but the continuing reports of Japanese peace feelers would indicate that Japan sees in this situation an opportunity for a more liberal peace. She cannot believe that we would be willing to shed our blood and our treasure if the final result would be merely a protective zone for us and the setting up of Russia as the overlord of all Asia.

A way must be found to solve this titanic problem and appeasement is not the way. Those who think so would do well to remember Chamberlain's appeasement of the Nazis at Munich and what it cost the world in blood and treasure. Russia is pursuing the same kind of tactics, and if we have learned anything from the holocaust which has swept over us, we know that we must meet Russia with firmness and determination so that she will come to welcome anything that spells world peace as the best way for the development of her country and her people. We cannot permit her well-organized and long-established Communistic cells in the various countries to overcome the distraught people of Europe and Asia. The result would be disastrous for us and World War II would have been fought in vain.

It is clear that our government recognizes the danger and is preparing to meet it intelligently, and that with the other nations of the world we will stand together for human rights, and a sound peace.